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WHITMAN EDUCATION GROUP INC

Form 10-K

June 12, 2002

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2002                      Commission file number 1-13722

WHITMAN EDUCATION GROUP, INC.  
(Exact Name of Registrant as Specified in its Charter)

State of Florida

22-2246554

-----  
(State or Other Jurisdiction of  
Incorporation or Organization)

-----  
(I.R.S. Employer Identification Number)

4400 Biscayne Boulevard, Miami, FL , 33137

(305) 575-6510

-----  
(Address of Principal Executive Offices)

-----  
(Registrant's Telephone Number,  
Including Area Code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT

Title of Each Class

Name of Each Exchange on Which Registered

-----  
Common Stock, No Par Value

-----  
American Stock Exchange

Indicate by check mark whether the registrant: (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

As of June 3, 2002, there were 13,924,670 shares of Common Stock outstanding.

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 3, 2002 was approximately \$60,509,000.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of our Definitive Proxy Statement for our 2002 Annual Meeting of Stockholders scheduled to be held in August 2002 are incorporated by reference into Part III of this Report.

WHITMAN EDUCATION GROUP, INC.  
ANNUAL REPORT ON FORM 10-K  
FOR THE YEAR ENDED MARCH 31, 2002

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## PART I

### Item 1. Business.

You are cautioned that the following text concerning our business should be read in conjunction with the "Forward-Looking Statements; Business Risks" appearing at the end of Item 1 and that certain statements made in this Annual Report on Form 10-K are qualified by the risk factors set forth in that section. Please keep in mind while reading this report that:

"We," "Us," "Our" and "Whitman" refer to Whitman Education Group, Inc. and its subsidiaries.

"Colorado Tech" refers collectively to the three campuses of Colorado Technical University.

"Sanford-Brown" refers collectively to our five Sanford-Brown College campuses.

"UDS" refers collectively to the fifteen Ultrasound Diagnostic Schools.

### General

We are a proprietary provider of career-oriented postsecondary education. Through three wholly-owned subsidiaries, we currently operate 23 schools in 13 states offering a range of graduate, undergraduate and non-degree certificate or diploma programs primarily in the fields of information technology, healthcare and business to more than 8,000 students.

We are organized into a University Degree Division and an Associate Degree Division through which we offer education programs. The University Degree Division primarily offers doctorate, master and bachelor degrees through Colorado Tech. The Associate Degree Division offers associate degrees and diplomas or certificates through Sanford-Brown and UDS.

Our students are predominantly adults who commute to our schools and require limited ancillary student services. The students are seeking to acquire basic knowledge and skills necessary for entry-level employment in technical careers or to acquire new or additional skills to either change careers or advance in their current careers.

The majority of our students rely on funds received from federal financial aid programs under Title IV of the Higher Education Act of 1965, as amended, to pay for a substantial portion of their tuition. Accordingly, we are substantially dependent upon Title IV funds for the majority of our revenues and the loss of our ability to receive Title IV funds would have a material adverse effect on our business and results of operations.

Our executive offices are located at 4400 Biscayne Boulevard, 6th Floor, Miami, Florida 33137, and our telephone number is (305) 575-6510.

## Background

We were originally incorporated in New Jersey in 1979. In 1983, we acquired two UDS schools in New York which offered non-degree programs only in diagnostic medical ultrasound. Enrollment in the two schools was less than 50 students. Over the next nine years, we opened eight additional UDS schools and increased our total enrollment to approximately 400 students.

In 1992, Dr. Phillip Frost invested in Whitman and became our Chairman. At the time of his investment, we had revenues of approximately \$3.8 million from UDS operations, and total enrollment at the ten existing UDS schools was approximately 675. We continued to expand UDS by adding five additional locations by 1994, for a total of 15 locations.

In 1994, we began to expand the scope of our business to offer a broader range of certificate programs in our UDS schools. Beginning in late 1994, we began offering cardiovascular technology and medical assisting programs in our UDS schools. In addition, in 1994 we began to evaluate acquisition candidates that would permit us to offer a broader range of career-oriented programs, including degree-based programs.

In December 1994, we acquired Sanford-Brown, a nationally-accredited college founded in 1868, which offers associate degree programs in business, computer technology and healthcare. With three campuses in and around St. Louis, Missouri, one in Kansas City, Missouri and one in Granite City, Illinois, Sanford-Brown added approximately 1,500 students to our enrollment. Sanford-Brown, together with UDS, created a network of 20 schools offering both associate degrees and non-degree programs in healthcare, information technology and business. These 20 schools comprise our Associate Degree Division.

In March 1996, we relocated our headquarters from New Jersey to Miami, Florida and we further broadened our degree program offerings by acquiring Colorado Tech in Colorado Springs, Colorado. Founded in 1965, Colorado Tech is a regionally-accredited institution offering doctorate, master and bachelor degrees in various information technology and business fields. Through the acquisition of Colorado Tech, we realized one of our goals of offering a full range of degree programs. The maturity of Colorado Tech and the quality of its programs also created the opportunity for us to expand by replicating the Colorado Tech model either in new locations or through the conversion of acquired institutions. Colorado Tech comprises our University Degree Division.

Colorado Tech began an expansion program in late 1996. In October 1996, Colorado Tech opened its second campus in Denver, Colorado; and in December 1996, Colorado Tech expanded its educational content and geographic scope through the acquisition of two campuses of Huron University in Huron and Sioux Falls, South Dakota. Huron University, which was founded in 1883, offered an MBA program as well as bachelor degree programs in healthcare, business, computer technology and education. After the acquisition of Huron University, the Sioux Falls campus was converted into an additional location of Colorado Tech because both the Sioux Falls campus and Colorado Tech principally serve the adult learner - generally, working adults seeking to advance in an existing career. In addition, Huron University's MBA program was installed at the other Colorado Tech campuses.

Although the curricula was career-oriented at Huron University, Huron University's Huron campus principally directed its efforts to serving more

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traditional students, younger adults pursuing degree-based higher education upon graduation from high school. There are fundamental differences in a campus serving working adults and a campus serving more traditional students. As a consequence of a strategic decision to focus our efforts on adult learners, in August 1999 we sold our Huron University campus in Huron, South Dakota to an investor group including members of the campus management team. As part of the sale, we agreed to guarantee \$1.1 million of the indebtedness that the purchaser assumed in the transaction, and we retained a minority interest in the school. In addition, we extended a loan of \$500,000 to the former campus President to assist him in funding the transaction.

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In April 2001, the investor group sold the school to a not-for-profit college. This transaction released us from any further obligations associated with the school, including our guarantee. In connection with the sale we recorded a one-time non-recurring non-cash charge of approximately \$1.2 million, or \$0.05 per diluted share, in the fiscal quarter ended March 31, 2001 relating to our minority interest in the campus. For further discussion of this transaction see "Management's Discussion and Analysis of Financial Conditions and Results of Operations - Divestiture of Huron University".

The UDS Pittsburgh campus stopped admitting new students in February 2002, and is expected to close after existing students have completed their programs. These students are expected to finish their programs by October 2002.

### The Postsecondary Education Market

The postsecondary education market in the United States is estimated to exceed \$235 billion annually, with more than 15.2 million students enrolled in over 6,600 postsecondary institutions eligible to participate in Title IV federal aid programs. According to the United States Department of Education, the population enrolled in such institutions will increase by nearly 1.8 million students to over 17 million students by the year 2011. Further, of the Title IV financial aid eligible institutions, approximately 2,500 are for-profit, with approximately 800 of those offering associate degrees or higher. Total enrollment in for-profit institutions is estimated to be less than 5% of the overall postsecondary education market.

Additionally, we believe that the market for entry-level associate degree candidates is enhanced by the increasing number of new high school graduates, projected to increase from 2.8 million in 1999 to 3.1 million in 2011. Further, we believe the market for entry level associate degree candidates is also enhanced by an increase in the percentage of recent high school graduates who continue their education after graduation. According to the National Center for Education Statistics, this percentage increased from approximately 53% in 1983 to 63% in 2000. In addition, the number of adult learners is increasing. Adult learners represent a large group of postsecondary students that has grown significantly in recent years. Since 1970, the percentage of students over the age of 24 has risen from 28% of all postsecondary students to more than 39% or 5.8 million in 1999, according to the National Center for Education Statistics.

Further, the continuing shift in the information age from non-skilled to skilled workers is dramatic and is expected to continue to drive growth in the postsecondary education market. According to economists, in 1950, 40% of the workforce in the United States was considered skilled or professional; in 1991 this number had risen to 65% and, in the year 2000 it was projected, 85% of the jobs required education or training beyond high school. This shift is reflected

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by the income premium placed on postsecondary education. According to the United States Census Bureau, in 2000, a full-time male worker over the age of 24 with an associate degree earned an average of 29% more per year than a comparable worker with only a high school diploma, and a full-time male worker over the age of 24 with a bachelor degree earned an average of 88% more per year than a comparable worker with only a high school diploma.

### Business Strategy

We intend to capitalize on what we believe are favorable trends in the postsecondary education market by focusing on career-oriented education programs designed primarily for adult learners seeking to acquire basic knowledge and skills necessary for entry-level employment in new careers or advance in their current careers. Having established a broad base of educational content offered in a broad range of degree (associate, bachelor, master and doctorate) and non-degree programs, we believe we are well-positioned to focus our efforts on further internal growth.

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In the short term, we believe that our best opportunity for achieving growth will come from the integration of existing operations with the basic objectives of increasing revenues at existing schools and improving overall operating efficiencies at each school and within our operations as a whole. To accomplish our goal of increasing revenues from our existing schools, we intend to increase enrollment by adding curricula at our existing locations and by improving our marketing efforts. We also intend to expand our educational programs by developing new curricula. To accomplish our goal of increasing operating efficiencies at each school and within our operations as a whole, we intend to continue to leverage our infrastructure by increasing our marketing efforts, improving the distribution of our curricula among our existing campuses and developing new high demand programs.

Also, in the short term, we are seeking to expand the geographic scope of our business by offering Colorado Tech's degree and professional certificate programs at the site of large employers. Currently, we offer employer on-site programs at four locations. In addition, in July 2000, Colorado Tech began offering internet delivered higher education courses. Initially, it will focus on masters level courses and professional certificate programs. Ultimately, Colorado Tech will seek to offer full on-line degree programs.

While we will continue to strive for increased revenues and enhanced operating efficiencies from our current operations in the short term, in the intermediate and longer term, we will seek to expand our network of campuses by opening new campuses. We may establish new locations where we believe the population of working adults, the local employment market, the availability of management talent and demographic trends will permit us to successfully replicate our operational model. Establishment of new locations will be subject to our ability to comply with or satisfy applicable regulatory requirements of the United States Department of Education and state licensing and accreditation requirements. We may also augment our expansion through selective strategic acquisitions where an acquisition is a more feasible alternative both financially and operationally.

### Operating Structure

We operate as two divisions: the University Degree Division and the Associate Degree Division. Each division focuses on a different segment of the postsecondary career education market. Our corporate office provides various

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centralized administrative services to each of our divisions and has a management structure which develops and implements corporate policies and procedures within each division. Each division has campus managers who oversee the daily operations of their campuses and district directors who oversee multiple campus locations. We believe that this management structure allows local school management to develop valuable local market experience and relationships with both the community and employers that are vital to the adult career education market, while still realizing the economies of scale and degree of control associated with centralization.

The University Degree Division is currently comprised of Colorado Tech, a regionally-accredited institution. Students attending the three principal Colorado Tech campuses are typically working adults seeking to advance in their current careers. Colorado Tech offers various bachelor, master and doctorate degrees in information technology, business and management. We believe that flexible course structures, class schedules designed for the working adult, small class sizes and the use of state of the practice computer laboratories have solidified Colorado Tech's position as a recognized leading source of adult education in its current markets and have established a successful, replicable model for growth and expansion into new markets.

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The Associate Degree Division focuses on the adult learner who desires to rapidly change careers or to quickly enter a new career field. The Associate Degree Division is currently comprised of Sanford-Brown and UDS, which provide adult students with associate degrees and professional certificate programs primarily in the areas of healthcare, information technology and business. Sanford-Brown is a nationally-accredited institution that provides various associate degrees in computer technology, business, and various allied health fields and similar professional certificate programs. UDS is also nationally-accredited and provides professional certificate programs in diagnostic medical ultrasound, cardiovascular technology, medical assisting, health information specialist and surgical technology.

For financial and other information relating to our two divisions see Note 15 to our Consolidated Financial Statements filed herewith.

### Educational Programs

We offer a range of career-oriented postsecondary educational programs, substantially all of which are in the areas of healthcare, information technology and business. We offer various concentrations in these programs at the associate, bachelor, master and doctorate levels as well as the professional diploma and certificate levels. Our programs are designed primarily to serve the adult learner seeking to acquire basic knowledge and skills necessary for entry-level employment or to acquire new or additional skills to change careers or to advance in their current careers. Each institution maintains curriculum action groups, comprised of faculty, campus program directors and corporate curriculum specialists, that periodically review and revise curricula as a result of feedback from students, local advisory boards comprised of professionals in career fields related to the programs and local employers.

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Our educational programs are set forth below:

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UNIVERSITY DEGREE DIVISION

Colorado Technical University

-----  
DOCTORATE PROGRAMS

Computer Science  
Management

MASTER DEGREE PROGRAMS

Computer Science  
Computer Engineering  
Electrical Engineering  
Management  
Business Administration

BACHELOR DEGREE PROGRAMS

Computer Engineering  
Computer Science  
e-Business  
Information Technology  
Information Technology Management  
Telecommunications Engineering Technology  
Electrical Engineering  
Electrical Engineering Technology  
Management  
Management Information Systems  
Criminal Justice  
Accounting  
Finance  
Project Management

ASSOCIATE DEGREE PROGRAMS

e-Business  
Information Technology  
Information Technology System Support  
Electronic Technology  
Management Information Systems  
Business Management  
Accounting  
Medical Assisting  
Criminal Justice

CERTIFICATE PROGRAMS

C++ Programming  
Comp TIA A+  
Comp TIA Network  
Computer Network Telecommunications  
Computer Systems Security  
Contract Management  
Digital Telecommunications  
e-Business Entrepreneurship  
e-Business Management  
Logistics Systems Management  
MCSE Preparation  
Object-Oriented Development  
Professional Communication  
Project Management  
Semiconductor Manufacturing  
Software Engineering  
Quality Management  
Visual Basic Programming  
Java Programming  
Oracle Application Development  
Oracle Database Administration  
Software Project Management  
Web Administration  
Web Application Development  
Web Page Development  
Web Programming & e-Commerce  
UNIX Programming and Administration

ASSOCIATE DEGREE DIVISION

Sanford-Brown College

-----  
ASSOCIATE DEGREE PROGRAMS

Network Technology  
Computer Support Specialist  
Computer Support Technician  
Computer and Internet Programming  
Respiratory Therapy  
Radiography  
Nursing  
Medical Assistant  
Business Administration  
Office Administration

PROFESSIONAL DIPLOMA PROGRAMS

Network Technology  
Computer Support Specialist  
Computer and Internet Programming  
Practical Nursing  
Medical Assistant  
Accounting  
Office Technology  
Medical Coding/Billing Specialist

CERTIFICATE PROGRAM

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|                               |                    |
|-------------------------------|--------------------|
| Paralegal Studies             | Network Specialist |
| Network Administration        |                    |
| Web Programming               |                    |
| Health Information Technology |                    |

### Ultrasound Diagnostic School

|   |  |
|---|--|
| SPECIALIZED ASSOCIATE DEGREE PROGRAMS (Florida campuses only) | PROFESSIONAL DIPLOMA PROGRAMS          |
| Diagnostic Medical Ultrasound                                 | Diagnostic Medical Ultrasound          |
| Non-Invasive Cardiovascular Technology                        | Non-Invasive Cardiovascular Technology |
|   | Medical Assistant                      |
|   | Surgical Technology                    |
|   | Health Information Specialist          |

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The following table provides information as of April 30, 2002 regarding the programs offered by each of our schools:

| SCHOOL                        | TYPE OF PROGRAM       | NUMBER OF LOCATIONS | NUMBER OF STUDENTS | LENGTH OF PROGRAM (IN MONTHS) 1 |
|-------------------------------|-----------------------|---------------------|--------------------|---------------------------------|
| University Degree Division    |                       |                     |                    |                                 |
| Colorado Technical University |                       |                     |                    |                                 |
|                               | Doctorate             | 1                   | 51                 | 36                              |
|                               | Master                | 3                   | 512                | 18-21                           |
|                               | Bachelor              | 3                   | 1,664              | 36                              |
|                               | Associate             | 3                   | 391                | 18                              |
|                               | Non-degree            | 3                   | 156                | Varies                          |
|                               |                       |                     | ---                |                                 |
| School Total                  |                       |                     | 2,774              |                                 |
|                               |                       |                     | =====              |                                 |
| Associate Degree Division     |                       |                     |                    |                                 |
| Sanford-Brown College         |                       |                     |                    |                                 |
|                               | Associate             | 4                   | 712                | 14-21                           |
|                               | Non-degree            | 5                   | 863                | 8-14                            |
|                               |                       |                     | -----              |                                 |
| School total                  |                       |                     | 1,575              |                                 |
|                               |                       |                     | =====              |                                 |
| Ultrasound Diagnostic School  |                       |                     |                    |                                 |
|                               | Non-degree            | 15                  | 4,360              | 8-19                            |
|                               | Specialized Associate | 3                   | 293                | 12-19                           |
|                               |                       |                     | -----              |                                 |
| School total                  |                       |                     | 4,653              |                                 |
|                               |                       |                     | =====              |                                 |
| Total                         |                       |                     | 9,002              |                                 |
|                               |                       |                     | =====              |                                 |

Tuition and fees for our programs vary depending on the nature of the program and the location of the school. Based on rates to be implemented during

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the current fiscal year, tuition and fees for the non-degree programs in the Associate Degree Division range from approximately \$11,000 for the eight-month medical assistant program offered by UDS to approximately \$24,000 for the longest associate degree programs offered by Sanford-Brown. At Colorado Tech, tuition and fees range from approximately \$37,000 to \$40,000 for the bachelor degree programs, \$15,000 to \$16,000 for the master's program and approximately \$31,000 for the doctorate program.

Academic schedules are designed to meet the needs of the adult student. UDS offers all of its programs during both day and evening classes beginning generally every five weeks. Sanford-Brown's programs begin quarterly and are offered both during the day and evening. Degree programs at Colorado Tech's Colorado Springs, Denver and Sioux Falls campuses are offered principally in the evening to accommodate the Colorado Tech student who is typically a working adult.

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1 At Colorado Tech, the working adult students typically do not attend their programs on a full-time basis. Therefore, it generally takes longer than the stated program length to complete the program.

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### Student Recruitment

We utilize a wide array of advertising and marketing strategies to attract students to our schools, including various combinations of newspaper, radio, television and direct mail. We market each of our schools on a local basis, and draw the vast majority of our students from the local areas surrounding each school.

### Student Admissions

Each school employs several admissions representatives who interview and enroll students on-site and a variety of support personnel to assist students in the admissions process. Each of our schools has admission requirements designed to assess whether the entering students have the educational and work experience, personal circumstances and the ability necessary to complete their program of study. Admission requirements differ from program to program and school to school, but at a minimum, each applicant must be a high school graduate or possess the recognized equivalent credential, perform successfully on a personal interview, and in some cases, perform adequately on an entrance examination. The admissions process is monitored by a director of admissions in each location, and periodically reviewed for compliance by corporate personnel.

### Graduate Career Services

Each of our schools operates a career services department that provides career development services to current students and alumni. These services include various combinations of seminars/courses covering interviewing skills, resume preparation and enhancement, job search skills, and career planning advice. In addition, the career services departments of the various schools make contact with potential employers on behalf of the schools and individual graduates, schedule interviews, attempt to obtain feedback regarding graduate performance on interviews and on the job, and provide on-going replacement assistance to graduates.

## Competition

The postsecondary education industry is highly fragmented. Typically, no single public or private school or group of schools dominates markets on a local or national basis. Accordingly, each of our schools has various competitors, which may include public and private colleges, other proprietary institutions, hospital based programs and institutions offering Internet-based curricula. As discussed above, Colorado Tech is exploring Internet-based courses and programs and is considering offering entire degree programs over the Internet. To the extent that Colorado Tech enters the market for Internet-based degree programs, it will become subject to competition from a larger group of educational institutions both public and private, including institutions out of the geographic areas in which Colorado Tech campuses are located with which Colorado Tech has not traditionally competed.

Competition in the career-oriented postsecondary education market for adult learners is typically based on the nature and quality of the programs offered, flexibility of class scheduling, service to the student customers and employability of graduates. Certain public and private colleges may offer programs similar to ours at a lower tuition cost due in part to government subsidies, foundation grants, tax deductible contributions and other financial resources not available to proprietary institutions. However, tuition at private, non-profit institutions is generally higher than the average tuition rates of our schools.

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## Supervision and Regulation

General. Each of our schools is subject to regulation by: (i) the state in which it operates; (ii) its accrediting body; and (iii) because they are certified to participate in federal financial aid programs ("Title IV Programs") authorized under the Higher Education Act of 1965, as amended, by the United States Department of Education. The loss of authorization to operate in states in which we currently operate, the withdrawal of accreditation from our schools, the loss of our schools' accrediting bodies accreditations, or the loss of the schools' eligibility to participate in Title IV Programs would have a material adverse effect on our operations.

State Authorization. Except for South Dakota which no longer regulates educational institutions, we are required to have authorization to operate in each state where we physically provide educational programs. Certain states accept accreditation as evidence of meeting minimum state standards for authorization. Other states require separate evaluations for authorization. Generally, the addition of a program or the addition of a new location must be included in the school's accreditation and/or be approved by the appropriate state authorization agency. Our schools are currently authorized to operate in all states in which we have physical locations and such authorization is required. State authorization is required for an institution to become and remain eligible to participate in Title IV Programs.

Accreditation. Accreditation is a non-governmental process through which an institution submits itself to qualitative review by an organization of peer institutions. There are three types of accrediting agencies: (i) national accrediting agencies, which accredit institutions on the basis of the overall nature of the institutions without regard to geographic location; (ii) regional accrediting agencies, which accredit institutions on the basis of the institution's overall nature but are primarily limited to defined geographic

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areas; and (iii) programmatic accrediting agencies, which accredit specific educational programs offered by institutions without regard to geographic location. Accrediting agencies primarily examine the academic quality of the instructional programs of an institution, and a grant of accreditation is generally viewed as validation that an institution's programs meet generally accepted academic standards. Accrediting agencies also review the administrative and financial operations of the institutions they accredit to ensure that each institution has the resources to perform its educational mission. Accreditation can serve as the basis for the recognition and acceptance by employers, other higher education institutions and governmental entities of degrees and credits awarded by an institution.

Pursuant to provisions of the Higher Education Act, the Department of Education relies in part on accrediting agencies and state licensing bodies to determine whether an institution's educational programs qualify it to participate in the Title IV Programs. As required under the Title IV Program rules, each of our schools is accredited by an accrediting agency recognized by the Department of Education. If one of our schools' accrediting agencies were to lose its recognition with the Department of Education we would be required to obtain a new accrediting agency for that school or risk that school losing its eligibility to receive Title IV funds.

The Higher Education Act requires accrediting agencies recognized by the Department of Education to review many aspects of an institution's operations to ensure, among other things, that the education or training offered by the institution is of sufficient quality to achieve, for the duration of the accreditation period, the stated objective for which the education or training is offered. Under the Higher Education Act, a recognized accrediting agency must perform regular inspections and reviews of institutions of higher education.

If an accrediting agency believes that an institution or program may be out of compliance with accrediting standards, it may require the institution to take appropriate action to bring it into compliance, place the institution on probation or a similar warning status or it may direct the institution to show cause why its accreditation should not be revoked. An accrediting agency also may place an institution on "reporting" status in order to monitor one or more specific areas of the institution's performance. While on probation, show cause or reporting status, an institution may be required to seek permission of its accrediting agency to open and commence instruction at new locations or initiate new academic programs. Failure to demonstrate compliance with accrediting standards in any of these instances could result in loss of accreditation. Each of our schools currently maintains institutional accreditation.

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Federal Financial Aid Programs. We derive a majority of our revenue from students who participate in Title IV Programs under the Higher Education Act. The potential loss of any of our school's eligibility to participate in these programs would have a material adverse effect on our operations.

A brief description of the Title IV Programs in which we participate follows:

Federal Pell Grant ("Pell"). Federal Pell Grants are a primary component of the Title IV Programs under which the Department of Education makes grants to students who demonstrate financial need. Every eligible student is entitled to receive a Pell Grant; there is no institutional allocation or limit on the number of eligible students. For the 2001-2002 award year, Pell Grants range from \$400 to \$3,750 per year.

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Federal Supplemental Educational Opportunity Grant ("FSEOG"). FSEOG awards are designed to supplement Pell Grants for the neediest students. FSEOG awards for eligible students generally range in amount from \$100 to \$4,000 per year. The availability of FSEOG awards to a particular institution is limited by the amount of those funds allocated to the institution under a formula that takes into account the size of the institution, its costs and the income levels of its students. We are required to make a 25% matching contribution for all FSEOG program funds disbursed. Resources for this institutional contribution may include institutional grants, scholarships and other eligible funds and, in certain states, portions of state scholarships and grants. During the 2000-2001 award year, our required 25% institutional match was approximately \$132,000.

Federal Family Education Loan Program ("FFEL"). The FFEL program consists of two types of loans; Stafford loans, which are made available to students, and PLUS loans, which are made available to parents of students classified as dependents. Under the Stafford loan program, an eligible undergraduate student may borrow up to \$2,625 for the first academic year, \$3,500 for the second academic year and, in some educational programs, \$5,500 for each of the third and fourth academic years. A graduate student may borrow up to \$8,500 per academic year. Eligible students with financial need qualify for interest subsidies while in school and during grace periods. Eligible students who are classified as independent can increase their borrowing limits and receive additional unsubsidized Stafford loans. Such undergraduate students can obtain an additional \$4,000 for each of the first and second academic years and, depending upon the educational program, an additional \$5,000 for each of the third and fourth academic years. Graduate students may borrow an additional \$10,000 per academic year. The aggregate amount of FFEL funds a student may receive is capped at \$46,000 for undergraduate students and \$138,500 for graduate or professional students. The obligation to begin repaying Stafford loans does not commence until six months after a student ceases enrollment as at least a half-time student. Our schools and their students use a number of lenders and guaranty agencies. While we believe that other lenders would be willing to make federally guaranteed student loans to our students if loans were no longer available from our current lenders, we can make no assurances in this regard. The Higher Education Act requires the establishment of lenders of last resort in every state to make certain loans to students at any school that cannot otherwise identify lenders willing to make federally guaranteed loans to its students.

Federal Perkins Loan Program ("Perkins"). Eligible undergraduate students may borrow up to \$4,000 under the Perkins program during each academic year, with an aggregate maximum of \$20,000, at a 5% interest rate and with repayment delayed until nine months after the borrower ceases to be enrolled on at least a half-time basis. Perkins loans are made available to those students who demonstrate the greatest financial need. Perkins loans are made from a revolving account, 75% of which was initially capitalized by the Department of Education. Subsequent federal capital contributions, with an institutional match in the same proportion, may be received if an institution meets certain requirements. Each institution collects payments on Perkins loans from its former students and loans those funds to students currently enrolled. Collection and disbursement of Perkins loans is the responsibility of each participating institution. Presently, only Colorado Tech utilizes the Perkins program. During the 2000-2001 award year, its 25% institutional match was approximately \$6,000.

Federal Work Study ("FWS"). Under the FWS program, federal funds are made available to pay up to 75% of the cost of part-time employment of eligible students, based on their financial need, to perform work for the institution or

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for off-campus public or non-profit organizations. At least 7% of an institution's FWS allocation must be used to fund student employment in community service positions. During the 2000-2001 award year, our 25% institutional match was approximately \$59,000.

**Federal Oversight of Title IV Programs.** In order to participate in Title IV Programs, we must comply with standards set forth in the Higher Education Act and the regulations promulgated thereunder, including the demonstration of "financial responsibility" and the "administrative capability" to handle and disburse Title IV funds. Compliance with such standards is subject to periodic reviews by, among others, the Department of Education and state and national agencies which guarantee the loans made in the Title IV Programs. Disbursements made under the Title IV Programs are subject to disallowance and repayment if such reviews result in adverse findings and if such findings are sustained after an institution has exhausted its administrative and judicial appeals. We believe that our institutions are in substantial compliance with the Higher Education Act and the regulations. We cannot, however, predict with certainty how all of the Higher Education Act provisions and the regulations will be applied. As described below, a violation of the Title IV Program requirements could have a material adverse effect on our financial condition or results of operations. In addition, it is possible that the Higher Education Act and the regulations may be applied in a way that could hinder our operations or expansion plans.

**Eligibility and Certification Procedures.** The Higher Education Act and its implementing regulations require each institution to apply to the Department of Education for continued eligibility and certification to participate in the Title IV Programs at least every six years, when it undergoes a change of control, raises the highest academic credential it offers, or, under certain defined circumstances, if the institution opens an additional location offering 50% or more of an educational program. Each of our schools (other than Sanford-Brown which is provisionally certified as discussed below) is currently eligible and certified to participate in the Title IV programs.

**Provisional Certification.** Under certain circumstances, an institution may be placed on provisional certification status for a period not to exceed three years. Provisional certification generally does not limit an institution's access to Title IV funds but differs from full certification in that (i) a provisionally certified school may be terminated from eligibility to participate in Title IV Programs without the same opportunity for a hearing before an independent hearing officer and an appeal to the Secretary of Education afforded to a fully certified school; (ii) a provisionally certified institution must seek approval before disbursing Title IV funds to students attending any newly established additional location that provides 50% or more of an educational program; and (iii) the Department of Education may impose additional conditions on a provisionally certified institution's eligibility to continue participating in Title IV Programs. If an institution successfully participates in Title IV Programs during a period of provisional certification but fails to satisfy the full certification criteria, the Department of Education may renew the institution's provisional certification. Any institution seeking eligibility to participate in Title IV Programs after a change in control will be provisionally certified for a limited period, following which the institution may be required to reapply for continued eligibility. Sanford-Brown recently has received provisional certification effective through March 2004 as a result of a "merger" of the Sanford-Brown Colleges in Missouri and Illinois in which Sanford-Brown College in Illinois, formerly a freestanding institution, became an additional location of Sanford-Brown College in Missouri.

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### Legislative Action

Political and budgetary concerns significantly affect the Title IV Programs. Congress must reauthorize the Higher Education Act approximately every six years. Accordingly, the statutory and regulatory provisions described herein are subject to change. The most recent reauthorization in 1998 reauthorized the Higher Education Act through 2003. Congress reauthorized all of the Title IV Programs in which our schools participate, generally in the same form and at funding levels no less than for the prior year. While the 1998 reauthorization of the Higher Education Act made numerous changes to Title IV Program requirements, we believe that these changes will not have a material adverse effect on our business, results of operations or financial condition.

In addition, Congress reviews and determines federal appropriations for Title IV Programs on an annual basis. Congress can also make changes in the laws affecting the Title IV Programs in the annual appropriation bills and in other laws it enacts between reauthorizations of the Higher Education Act. Because a significant percentage of our revenue is derived from the Title IV Programs, any action by Congress that significantly reduces Title IV Program funding or the ability of our schools or students to participate in the Title IV Programs could have a material adverse effect on our business, results of operations or financial condition. Legislative action also may increase our administrative costs and require us to adjust our practices in order for our schools to comply fully with the Title IV Program requirements.

**The 90/10 Rule.** The Higher Education Act requires that an annual calculation be made for each proprietary school of the percentage of its Title IV Program receipts to its total receipts from Title IV eligible program funds. Under this rule, a proprietary school will be ineligible to participate in Title IV Programs if, under a modified cash basis of accounting and according to certain assumptions imposed by the Department of Education, more than 90% of its revenues from its Title IV eligible programs for the prior fiscal year, were derived from Title IV Program funds. If one of our schools were to fail the 90/10 rule for a particular fiscal year, it would be ineligible to participate in Title IV Programs as of the first day of the following fiscal year and would be unable to apply to regain its eligibility until the next fiscal year. Furthermore, if one of our schools violated the 90/10 rule and became ineligible to participate in Title IV Programs but continued to disburse Title IV Program funds, the Department of Education would consider all Title IV Program funds disbursed to the institution after the effective date of the loss of eligibility to be a liability subject to repayment by the institution. For the fiscal year ended March 31, 2002, our schools met the 90/10 rule with percentages of revenues derived from Title IV Program funds ranging from 29% to 78%.

**Administrative Capability.** The Higher Education Act directs the Department of Education to assess the administrative capability of each institution to participate in Title IV Programs. The Department of Education has issued regulations that require each institution to satisfy a series of separate standards. Failure to satisfy any of the standards may lead the Department of Education to determine that the institution lacks administrative capability and, therefore, is not eligible to continue its participation in Title IV Programs or must be placed on provisional certification status as a condition of such continued participation. For the fiscal year ended March 31, 2002, our schools met all of the administrative capability requirements.

**Incentive Compensation.** The Higher Education Act prohibits an institution from providing any commission, bonus or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any person or entity engaged in any student recruitment or admission activities or in making decisions regarding the awarding of student financial assistance. The Department of Education has provided only limited guidance respecting compliance with this requirement. Our employees involved in student recruitment, admissions

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or financial aid receive a salary and participate in a profit-sharing bonus plan available to all employees. Based on written guidance from the Department of Education, we believe that our method of compensating these employees complies with the requirements of the Higher Education Act. The regulations do not, however, establish clear standards for compliance, and there can be no assurance that the Department of Education will interpret its regulations in the same manner as we have.

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Financial Responsibility. Each eligible institution participating in the Title IV Programs (except for state-owned institutions) must satisfy certain standards of financial responsibility. To be considered financially responsible under the regulations, an institution must, among other things, (i) have sufficient cash reserves to make required refunds; (ii) be current in its debt payments; (iii) be meeting all of its financial obligations; and (iv) achieve a "composite score" of at least 1.5 based on the institution's Equity, Primary Reserve and Net Income ratios, as calculated on the basis of the institution's annual audited financial statements. The Equity Ratio measures capital resources, ability to borrow and financial viability. The Primary Reserve Ratio measures an institution's ability to support current operations from expendable resources. The Net Income Ratio measures an institution's ability to operate profitably.

Once these ratios are computed on the basis of an institution's annual audited financial statements, they are adjusted by strength factors, weighted and added to create the composite score which may range from negative one to three. If the resulting composite score is 1.5 or greater, the institution is deemed to be financially responsible. If the Department of Education determines that an institution's composite score is below 1.5, the institution is deemed not to be financially responsible. If such an institution's composite score is 1.0 or greater but less than 1.5, and the institution otherwise meets the requisite financial responsibility requirements, the institution may continue to participate in Title IV Programs as a financially responsible institution for a period of no more than three consecutive years, provided its composite score remains in the range of 1.0 to 1.4 in each of those years. An institution participating in Title IV Programs on this basis must participate in the Title IV Programs on the reimbursement or cash monitoring method of payment under which an institution must disburse its own funds to students before receiving Title IV Program funds and must provide the Department of Education with timely information with respect to certain matters and financial events. The Department of Education also may request from such institutions additional information about their current operations and/or future plans. In addition, if an institution is deemed not to be financially responsible because it has achieved a composite score of less than 1.5, the institution may establish financial responsibility by posting an irrevocable letter of credit in favor of the Department of Education in an amount equal to not less than one-half the Title IV Program funds received by students enrolled at such institution during the prior fiscal year.

For purposes of these standards, Sanford-Brown and Colorado Tech have historically been evaluated as distinct entities, while the Department of Education has evaluated UDS on the basis of the financial performance of Whitman as a whole. However, the regulations allow the Department of Education to evaluate an institution based on its own financial condition or that of its corporate parent and there can be no assurance that the method by which the Department of Education evaluates our schools will not change in the future. Under these standards, our composite score on a consolidated basis (as historically applied to UDS) is 2.3, Colorado Tech's composite score is 3.0 and Sanford-Brown's composite score is 2.9.

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Even if an institution achieves a composite score of at least 1.5, however, it may be deemed to lack financial responsibility if (i) the institution's audit report contains an adverse, qualified or disclaimed opinion, (ii) the institution's participation in Title IV Programs has been limited, suspended or terminated in the past five years, (iii) in the past two years, as the result of a finding in its compliance audit or in a program review by the Department of Education, the institution was required to repay an amount greater than 5% of the funds the institution received under Title IV in the year covered by the audit or program review, (iv) the institution has failed in the past five years to timely submit compliance and financial statement audits, or (v) the institution failed to resolve satisfactorily any compliance problems identified in audit or program reviews. The institution may also be deemed to be not financially responsible if certain controlling persons owe, or are associated with another institution that owes, Title IV liabilities to the Department of Education.

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Another measure of financial responsibility is an institution's ability to make timely refunds to students and the Title IV programs. If as a result of an audit conducted by the Department of Education, Whitman's independent auditor, or a guaranty or state authorizing agency, there is a finding that one or more of our schools did not make timely refunds in either of its last two fiscal years, that school could be required to submit an irrevocable letter of credit to the Secretary of the Department of Education equal to 25 percent of the total amount of Title IV Higher Education Act program refunds the school made or should have made during its most recently completed fiscal year, in order to maintain financial responsibility. Based on this standard, in October 2001, we posted letters of credit amounting to \$420,000 as a result of late refund findings with respect to fiscal years 2000 and 2001.

**Cohort Default Rates.** The regulations require the calculation of a cohort default rate on FFEL loans received by current and former students who have attended our institutions. The cohort default rate measures the percentage of students who enter repayment on FFEL loans in a particular federal fiscal year and default before the end of the following federal fiscal year. If a institution's official cohort default rate equals or exceeds 25% for each of its three most recent federal fiscal years for which data is available, it becomes ineligible to participate in the FFEL and Pell programs for the remainder of the year in which the Department of Education makes that determination and the subsequent two years. An institution also may become ineligible to participate in all Title IV Programs if its official default rate exceeds 40% in any one fiscal year. Such actions may be appealed. A school's cohort default rate is published annually by the Department of Education. The most recent official cohort year published was for fiscal year 1999 (published in October 2001). UDS's official 1999 rates ranged from 6.3% to 10.3%; Sanford-Brown's official 1999 rate was 6.3% and Colorado Tech's official 1999 rate was 3.3%. All of our schools' preliminary 2000 default rates were below 25% with no preliminary rate exceeding 11.4%. The fiscal year 1999 cohort default rates for all of our schools were 6.7% on a weighted average basis; the average rate for all proprietary institutions in the United States for the same period was approximately 9.3%.

In addition, as of October, 1999 an institution whose Perkins cohort default rate is 50% or greater for three consecutive federal award years will lose eligibility to participate in the Perkins program for the remainder of the federal fiscal year in which the Department of Education determines that the institution has lost its eligibility and for the two subsequent federal fiscal years. Such action may be appealed. The Higher Education Act also imposes a

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penalty on institutions that have a default rate of 25% or above, by eliminating additional federal funds allocated annually to the institution for use in the Perkins program. Only Colorado Tech participates in the Perkins program, and the cohort default rate for that program is 11.4%.

Change in Ownership Resulting in a Change in Control. A change of ownership which results in a change in control (as defined below) of Whitman or one or more of our institutions will trigger a review of the certification and eligibility of all (if Whitman changes ownership) or some of our schools to participate in Title IV Programs, and may cause all or some of our institutions to lose their eligibility pending recertification by the Department of Education. Such change in ownership and control could also require reauthorization to operate by individual states and trigger a review by each of our school's accrediting bodies. The 1998 reauthorization of the Higher Education Act provides that the Department of Education may provisionally and temporarily certify an institution undergoing a change of control under certain circumstances while the Department of Education reviews the institution's application for recertification. The Department of Education has implemented regulations that permit institutions to apply for such temporary provisional certification within ten days after a change of ownership and control. As a result, it is possible for an institution to change ownership resulting in a change of control without experiencing an interruption in Title IV funding.

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With regard to publicly held companies, the Department of Education generally has adopted the change of ownership and control standards used in reporting such events under federal securities laws. A change in control of Whitman which would require the filing of a Current Report on Form 8-K with the Securities and Exchange Commission would also require our schools to seek recertification from the Department of Education as outlined above. In addition, in accordance with Department of Education regulations effective July 1, 2001, a publicly held company participating in the Title IV Programs is deemed to experience a change in ownership and control when a person who is a controlling shareholder of the corporation ceases to be a controlling shareholder. The Department of Education defines a controlling shareholder to be a shareholder who holds or controls through agreement both (i) 25 percent or more of the total outstanding voting stock of the corporation and (ii) more shares of voting stock than any other shareholder. A controlling shareholder does not include a shareholder whose sole stock ownership is held (i) as a U.S. institution's investor as defined under securities laws, (ii) in mutual funds, (iii) through a profit-sharing plan in which all full-time permanent employees are included, or (iv) through an Employee Stock Ownership Plan.

According to Department of Education regulations, individual schools may be deemed to experience a change in control if: the institution is sold; there is a merger of one or more eligible institutions; the institution is divided into two or more institutions; the institution is permitted to transfer its liabilities to its parent corporation; assets comprising a substantial portion of the educational business of its institution are transferred; or the institution changes its status as a for-profit, nonprofit or public institution.

A failure to obtain recertification subsequent to a change in ownership and control of Whitman would have a material adverse effect on our financial condition. A failure to obtain recertification subsequent to a change in ownership and control of an individual Whitman school would have a material adverse effect on that school's financial condition. Our acquisition of other institutions typically would result in a change of ownership resulting in a change of control of the acquired institution and not of Whitman or its existing schools. When a change in control does occur, the school's certification by the

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Department of Education following the change in control is provisional.

Each accrediting body and state agency which authorizes us to operate our schools has different regulations regarding changes in control which could require re-authorization or re-accreditation. Our failure to obtain state re-authorization or re-accreditation of any of our schools subsequent to a change in control would threaten the school's eligibility to participate in the Title IV programs.

Compliance Audits. Our institutions are subject to audits or program compliance reviews by various external agencies, including the Department of Education, its Office of Inspector General and state, guaranty and accrediting agencies. The Higher Education Act and its implementing regulations also require that an institution's administration of Title IV Program funds be audited annually by an independent accounting firm. If the Department of Education or another regulatory agency were to determine that one of our institutions had improperly disbursed Title IV Program funds or had violated a provision of the Higher Education Act or the implementing regulations, the affected institution could be required to repay such funds to the Department of Education or the appropriate state agency or lender and could be assessed an administrative fine. If the Department of Education viewed the violation as significant, the Department of Education also could transfer the institution from the advance system of receiving Title IV Program funds to the cash monitoring or reimbursement method of payment, under which a school must disburse its own funds to students and document students' eligibility for Title IV Program funds before receiving such funds from the Department of Education. Violations of Title IV Program requirements also could subject us to other civil and criminal sanctions including a proceeding to impose a fine, place restrictions on an institution's participation in Title IV Programs or terminate its eligibility to participate in the Title IV Programs. Potential restrictions may include a suspension of an institution's ability to participate in Title IV Programs for up to 60 days and/or a limitation of an institution's participation in Title IV programs, either by limiting the number or percentage of students enrolled who may participate in Title IV Programs or by limiting the percentage of an institution's total receipts derived from Title IV Programs. The Department of Education also may initiate an emergency action to temporarily suspend an institution's participation in the Title IV Programs without advance notice if it determines that a regulatory violation creates an imminent risk of material loss of public funds.

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An institution may appeal any such action initiated by the Department with the exception of an action placing an institution on reimbursement, although, as described above, a provisionally certified institution has more limited appeal rights. An institution may apply for removal of a limitation no sooner than 12 months from the effective date of the limitation and must demonstrate that the violation at issue has been corrected. If the Department of Education terminates the eligibility of an institution to participate in Title IV Programs, the institution in most circumstances must wait 18 months before requesting a reinstatement of its participation. An institution that loses its eligibility to participate in Title IV Programs due to a violation of the 90/10 rule may not apply to resume participation in Title IV Programs for at least one year. Depending on the severity of the fine, suspension or limitation, such action could have a material adverse effect on our financial condition. A termination of our eligibility to participate in Title IV Programs would have a material adverse effect on our financial condition.

There is no proceeding pending to fine any of our institutions or to limit, suspend or terminate any of our institutions' participation in the Title IV

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Programs.

Expansion of Programs and Locations. Generally, if an institution eligible to participate in Title IV Programs adds an educational program after it has been designated as an eligible institution, the institution must apply to the Department of Education to have the additional program designated as eligible. However, an institution is not obligated to obtain Department of Education approval of an additional program that leads to an associate, baccalaureate, professional or graduate degree or which prepares students for gainful employment in the same or related recognized occupations as any educational programs that have previously been designated as eligible programs at that institution, and the program meets certain minimum length requirements.

An institution must notify the Department of Education of any location at which it provides 50% or more of an academic program and may be required to file an application seeking eligibility for such a location. Under Department of Education regulations effective July 1, 2001, an institution must apply for approval for any new additional location at which the institution offers 50% or more of an educational program if: 1) the institution is provisionally certified; 2) the institution receives Title IV Program funds under the reimbursement or cash monitoring payment method; 3) the institution acquires the assets of another Title IV participating institution that provided educational programs at that location; 4) the institution would be subject to loss of eligibility based on its merger or entrance into a similar transaction (including a change of name or address) with an institution that operated at substantially the same address as the new location and has lost its Title IV eligibility due to high cohort rates (as described above); or 5) the Secretary of Education previously notified the institution that it must apply for approval of an additional location. Under this standard, only Sanford-Brown would be required under regulation to seek approval for a new additional location at which the Sanford-Brown provides 50% or more of an educational program.

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An additional location must satisfy all applicable requirements for institutional eligibility, with the exception of the requirement that it operate for two years prior to obtaining Title IV funds.

### Seasonality

We experience seasonality in our quarterly results of operations as a result of changes in the level of student enrollments. New enrollments in our schools tend to be higher in the third and fourth fiscal quarters because these quarters cover periods traditionally associated with the beginning of school semesters. We expect that this seasonal trend will continue. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

### Employees

At March 31, 2002, we had 752 full-time and 465 part-time employees of whom 565 were faculty and 559 were administrative personnel at the various schools. The remaining employees were employed by us at our administrative offices.

### Forward-Looking Statements; Business Risks

Sections of this Report contain statements that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the

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"Exchange Act"), and we intend that such forward-looking statements be subject to the safe harbors created thereby. Statements in this Report containing the words "estimate," "project," "anticipate," "expect," "intend," "believe," "will," "could," "should," "may," and similar expressions may be deemed to create forward-looking statements. These statements are based on our current expectations and beliefs concerning future events that are subject to risks and uncertainties. Actual results may differ materially from the results suggested herein and from the results historically experienced.

Forward-looking statements contained in this Report may relate to: (i) our future operating plans and strategies; (ii) the growth of the postsecondary education market due to (a) the increasing number of high school graduates and adult learners and (b) because of the focus placed on postsecondary education, the continuing shift from non-skilled to skilled workers; (iii) the expansion of our business through the addition of new curricula or new locations, or by acquisitions; (iv) our anticipated need for and our ability to fund capital expenditures associated with the relocation and upgrade of facilities in fiscal 2003; (v) the Department of Education's enforcement or interpretation of existing regulations affecting our operations; (vi) the seasonality of our results of operations; and (vii) the sufficiency of our working capital, financings, including our ability to increase our borrowing if necessary, and cash flow from operating activities for our future operating and capital requirements.

We wish to caution you that in addition to the important factors described elsewhere in this Form 10-K, the following important factors, among others, sometimes have affected, and in the future could affect, our actual results and could cause our actual consolidated results during fiscal 2003, and beyond, to differ materially from those expressed in any forward-looking statements made by us, or on our behalf: (i) our plans, strategies, objectives, expectations and intentions, are subject to change at any time at our discretion; (ii) the effect of, and our and our accrediting bodies' ability to comply with, state and federal government regulations regarding education and accreditation standards, or the interpretation or application thereof, including the level of government funding for, and our eligibility to participate in, student financial aid programs; (iii) our ability to assess and meet the educational needs and demands of our students and the employers with whom they seek employment; (iv) the effect of competitive pressures from other educational institutions; (v) our ability to execute our growth strategy and manage planned internal growth; (vi) our ability to locate, obtain and finance favorable school sites, negotiate acceptable lease terms, and hire and train employees; (vii) the effect of economic conditions in the postsecondary education industry and in the economy generally including changes and fluctuations in interest rates; (viii) our ability to adapt to technological and other developments, including Internet-based curricula; (ix) the role of the Department of Education's, Congress' and the public's perception of for-profit education as it relates to changes in the Higher Education Act and regulations promulgated thereunder; and (x) the effects of changes in taxation and other government regulations.

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### Item 2. Properties.

We lease all of our administrative and campus facilities. We, along with our Associate Degree Division, maintain headquarters in Miami, Florida, where combined we lease approximately 13,750 square feet of office space. Sanford-Brown also has limited administrative facilities at its Fenton campus. Colorado Tech maintains its administrative offices at its campus in Colorado Springs, Colorado.

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Our schools are operated from the following leased premises:

| Location of School<br>----- | School<br>----- | Size of facility<br>(in square feet)<br>----- |
|-----------------------------|-----------------|---|
| Colorado Springs, Colorado  | Colorado Tech   | 80,000  |
| Sioux Falls, South Dakota   | Colorado Tech   | 21,064  |
| Denver, Colorado            | Colorado Tech   | 18,298  |
| North Kansas City, Missouri | Sanford-Brown   | 38,500  |
| Fenton, Missouri            | Sanford-Brown   | 25,200  |
| Hazelwood, Missouri         | Sanford-Brown   | 24,500  |
| St. Charles, Missouri       | Sanford-Brown   | 14,650  |
| Granite City, Illinois      | Sanford-Brown   | 12,253  |
| New York, New York          | UDS             | 14,500  |
| Carle Place, New York       | UDS             | 15,478  |
| Iselin, New Jersey          | UDS             | 15,490  |
| Atlanta, Georgia            | UDS             | 11,469  |
| Bellaire, Texas             | UDS             | 15,395  |
| Tampa, Florida              | UDS             | 14,412  |
| Dallas, Texas               | UDS             | 15,235  |
| Trevese, Pennsylvania       | UDS             | 10,204  |
| Elmsford, New York          | UDS             | 10,034  |
| Jacksonville, Florida       | UDS             | 15,800  |
| Springfield, Massachusetts  | UDS             | 17,617  |
| Pittsburgh, Pennsylvania    | UDS             | 6,238   |
| Fort Lauderdale, Florida    | UDS             | 14,808  |
| Independence, Ohio          | UDS             | 11,282  |
| Landover, Maryland          | UDS             | 7,703   |

We believe that all of our present campus facilities are suitable and adequate for their current uses. We monitor the suitability of our campus facilities to anticipate where demand for our products will create overcrowding or exceed capacity of existing facilities and seek to expand or relocate such campuses. In connection with the expected "teach out" of our UDS campus in Pittsburgh, Pennsylvania, we expect that the leased premise located there will be closed upon the conclusion of that program.

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### Item 3. Legal Proceedings.

We are a party to routine litigation incidental to our business, including but not limited to, claims involving students or graduates and routine employment matters. While there can be no assurance as to the ultimate outcome of any such litigation, we do not believe that any pending proceeding will result in a settlement or an adverse judgment that will have a material adverse effect on our financial condition or results of operations. See "Forward-Looking Statements; Business Risks" appearing in Item 1 of this Report.

### Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended March 31, 2002.

Executive Officers of the Registrant

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Set forth below is a list of the names, ages, positions held and business experience during the past five years of the persons serving as our executive officers as of March 31, 2002. Officers serve at the discretion of our Board of Directors. There is no family relationship between any of the executive officers, and there is no arrangement or understanding between any executive officer and any other person pursuant to which the executive officer was selected.

Richard C. Pfenniger, Jr. Mr. Pfenniger, age 46, has been our Chief Executive Officer and Vice Chairman since 1997 and a director since 1992. Mr. Pfenniger was Chief Operating Officer of IVAX Corporation from 1994 to 1997. He served as Senior Vice President--Legal Affairs and General Counsel of IVAX from 1989 to 1994, and as Secretary from 1990 to 1994. Prior to joining IVAX, Mr. Pfenniger was engaged in private law practice.

Fernando L. Fernandez. Mr. Fernandez, age 41, has served as our Vice President--Finance, Chief Financial Officer, Secretary and Treasurer since 1996. Prior to joining us, Mr. Fernandez, a certified public accountant, served as Chief Financial Officer of Frost-Nevada Limited Partnership from 1991 to 1996. Previously, Mr. Fernandez served as Audit Manager for PricewaterhouseCoopers LLP (formerly Coopers & Lybrand) in Miami.

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### PART II

#### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Our common stock is traded on the American Stock Exchange under the symbol "WIX". The following table sets forth the high and low sale prices of our common stock as reported by the composite tape of the American Stock Exchange for each of the quarters indicated.

|                        | 2002    |         |
|------------------------|---------|---------|
|                        | High    | Low     |
| Quarter Ended 6/30/01  | \$ 3.05 | \$ 2.00 |
| Quarter Ended 9/30/01  | 3.70    | 2.75    |
| Quarter Ended 12/31/01 | 4.80    | 3.00    |
| Quarter Ended 3/31/02  | 5.92    | 4.40    |
|                        | 2001    |         |
|                        | High    | Low     |
| Quarter Ended 6/30/00  | \$ 2.38 | \$ 1.13 |
| Quarter Ended 9/30/00  | 2.50    | 1.19    |
| Quarter Ended 12/31/00 | 3.13    | 1.00    |
| Quarter Ended 3/31/01  | 3.26    | 1.94    |

As of the close of business on June 3, 2002, there were approximately 282 record holders of our common stock. We have not paid dividends on our common stock and do not contemplate paying dividends in the foreseeable future.

## Securities Authorized for Issuance under Equity Compensation Plans

We maintain our Amended and Restated 1996 Stock Option Plan, our 1992 Incentive Stock Option Plan, our 1986 Directors and Consultants Stock Option Plan, and our Employee Stock Purchase Plan. Additionally, we have entered into an individual arrangement outside of these equity plans with Richard C. Pfenniger, Jr., our Chief Executive Officer providing for the award to Mr. Pfenniger of options to acquire shares of our common stock. The following table provides summary information of the equity awards under these compensation plans.

| Equity Compensation Plan Information                       |   |   |   |
|--|---|---|---|
| Plan Category  | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
| -----  | -----   | -----   | -----   |
|  | (a)   | (b)   | (c)   |
| Equity compensation plans approved by security holders     | 3,923,937   | \$ 3.79   | 4,715,250   |
| Equity compensation plans not approved by security holders | 185,000   | \$ 5.25   | -   |
|  | -----   |   | -----   |
| Total  | 4,108,937   | \$ 3.86   | 4,715,250   |
|  | =====   | =====   | =====   |

On March 3, 1997, we retained Mr. Pfenniger as our Chief Executive Officer. In connection with the commencement of his employment with us we granted him options to acquire 300,000 shares of our common stock. We granted Mr. Pfenniger options covering 115,000 of these shares under our 1996 Plan and granted the remaining options to him outside of our equity compensation plans in a grant that was not approved by our shareholders. The terms of the grants are identical and the options have a per share exercise price equal to \$5.25, the per share fair market value of the common stock on the date of grant. Mr. Pfenniger's options vest ratably over 4 years after the date of grant and expire 7 years after the date of grant. Vested options held by Mr. Pfenniger may be exercised

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after termination of his employment (other than as a result of a termination of his employment for "cause" as defined in the applicable grant) until either the original expiration date for the option or the date which is one year after the effective date of the termination of his employment, whichever is earlier. In the event of a "change of control" of Whitman (as defined in the applicable grant), all of Mr. Pfenniger's outstanding unvested options will vest and become fully exercisable.

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### Item 6. Selected Financial Data.

|   | Year Ended March 31, |          |           |           |          |
|---|----------------------|----------|-----------|-----------|----------|
|   | 2002                 | 2001     | 2000      | 1999      | 1998     |
| -----                                     |                      |          |           |           |          |
| (In thousands, except per share data) (1) |                      |          |           |           |          |
| <b>Operating Data</b>                     |                      |          |           |           |          |
| Net revenues.....                         | \$91,927             | \$79,629 | \$77,611  | \$73,977  | \$60,306 |
| Income (loss) from                        |                      |          |           |           |          |
| operations.....                           | 5,060                | 576      | (26)      | 4,195     | 784      |
| Net income (loss).....                    | 2,602                | (1,422)  | (502)     | 3,042     | 143      |
| Diluted net income (loss)                 |                      |          |           |           |          |
| per share(2) .....                        | 0.18                 | (0.11)   | (0.04)    | 0.22      | 0.01     |
| Dividends.....                            | None                 | None     | None      | None      | None     |
| <br><b>Balance Sheet Data</b>             |                      |          |           |           |          |
| Total assets.....                         | \$67,109             | \$62,867 | \$ 62,526 | \$ 62,580 | \$53,821 |
| Long-term debt and                        |                      |          |           |           |          |
| capitalized lease                         |                      |          |           |           |          |
| obligations, less current                 |                      |          |           |           |          |
| portion.....                              | 7,473                | 11,128   | 11,119    | 12,022    | 14,350   |
| Stockholders' equity.....                 | 23,727               | 20,544   | 21,285    | 21,625    | 17,833   |
| -----                                     |                      |          |           |           |          |

(1) Figures reflect the acquisition of Huron University on December 30, 1996, which was accounted for as a purchase, the sale of Huron University in August 1999 and the disposition of our minority interest in Huron University in April 2001.

(2) We calculate historical diluted net income (loss) per share using the weighted average number of shares of common stock and common stock equivalents outstanding during the period. We calculate our projected diluted net income (loss) per share for periods not yet completed using the treasury stock method. Under the treasury stock method we assume that all outstanding "in the money" stock options and other common stock equivalents are exercised at the beginning of the financial period. As a result, fluctuations in the market price of our common stock could result in variances between our projected and our actual diluted net income (loss) per share.

See Consolidated Financial Statements, Item 8 of this Report, for supplementary financial information of Whitman.

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### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in conjunction with the consolidated financial statements of Whitman and the notes thereto appearing elsewhere in this report and in conjunction with "Forward-Looking Statements; Business Risks" appearing at the end of Item 1 in that certain statements made in this Item are qualified by the risk factors set forth in that section.

#### General

Through three wholly-owned subsidiaries, we currently operate 23 schools in 13 states offering a range of graduate, undergraduate and non-degree certificate or diploma programs primarily in the fields of healthcare, information technology and business to more than 8,000 students. We are organized into a University Degree Division and an Associate Degree Division. The University Degree Division offers primarily doctorate, master and bachelor degrees through Colorado Tech. The Associate Degree Division offers associate degrees and diplomas or certificates through Sanford-Brown and UDS.

Revenues consist primarily of tuition and fees paid by students. The majority of our students rely on funds received from Title IV Programs to pay for a substantial portion of their tuition. Accordingly, a majority of our revenues are indirectly derived from Title IV Programs.

Instructional and educational support expenses consist primarily of costs related to the educational activity of our schools. Instructional and educational support expenses include salaries and benefits of faculty, academic administrators and student support personnel. Instructional and educational support expenses also include occupancy costs, costs of books sold, and depreciation and amortization of equipment costs and leasehold improvements.

Selling and promotional expenses consist primarily of advertising costs, production costs of marketing materials, and salaries and benefits of personnel engaged in student recruitment, admissions, and promotional functions.

General and administrative expenses consist primarily of administrative salaries and benefits, occupancy costs, depreciation, bad debt, amortization of intangibles, and other related costs for departments that do not provide direct services to students. Effective April 1, 2001, in compliance with SFAS 142, goodwill is no longer subject to amortization but rather reviewed for impairment on a periodic basis.

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#### Results of Operations

The following table sets forth the percentage relationship of certain statement of operations data to net revenues for the periods indicated:

|              | Year Ended March 31, |        |        |
|--------------|----------------------|--------|--------|
|              | 2002                 | 2001   | 2000   |
| Net revenues | 100.0%               | 100.0% | 100.0% |

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|  |       |        |        |
|--|-------|--------|--------|
| Costs and expenses:  |       |        |        |
| Instructional and educational support.....   | 63.6  | 66.1   | 66.4   |
| Selling and promotional.....   | 15.7  | 18.0   | 15.9   |
| General and administrative....   | 15.2  | 15.2   | 15.7   |
| Legal settlement.....  | -     | -      | 2.0    |
| Total costs and expenses.....  | 94.5  | 99.3   | 100.0  |
| Income from operations.....  | 5.5   | 0.7    | -      |
| Other (income) and expenses:   |       |        |        |
| Interest expense.....  | 1.0   | 1.4    | 1.5    |
| Interest income.....   | (0.4) | (0.4)  | (0.4)  |
| Loss on Huron investment.....  | -     | 1.5    | -      |
| Income (loss) before income tax provision (benefit) and cumulative effect of change in accounting principle..... | 4.9   | (1.8)  | (1.1)  |
| Income tax provision (benefit)....   | 2.1   | (0.7)  | (0.4)  |
| Income (loss) before cumulative effect of change in accounting principle.....                                    | 2.8   | (1.1)  | (0.7)  |
| Cumulative effect of change in accounting principle, net of tax.....   | -     | (0.7)  | -      |
| Net income (loss).....   | 2.8%  | (1.8)% | (0.7)% |

Year ended March 31, 2002 compared to the year ended March 31, 2001

Net revenues increased by \$12.3 million or 15.4% to \$91.9 million for the year ended March 31, 2002 from \$79.6 million for the year ended March 31, 2001. This increase was primarily due to a 6.6% increase in average student enrollment and an increase in tuition rates.

The Associate Degree Division experienced a 9.8% increase in average student enrollment and the University Degree Division experienced a 0.1% increase in average student enrollment. The increase in student enrollment in the Associate Degree Division was primarily due to increased enrollment in the medical assisting program and the health information specialist program offered by UDS and the information technology and allied health programs offered at Sanford-Brown. The increase in student enrollment in the Associate Degree Division was due to our improved marketing and admissions efforts which permitted us to increase the rate at which we converted leads to new student starts.

Instructional and educational support expenses increased by \$5.8 million, or 11.0%, to \$58.5 million for the year ended March 31, 2002 from \$52.7 million for the year ended March 31, 2001. As a percentage of net revenues, instructional and educational support expenses decreased to 63.6% for the year ended March 31, 2002 as compared to 66.1% for the year ended March 31, 2001. The increase in instructional and educational support expenses was primarily due to an increase in payroll expenses and related benefits for faculty, academic administrators and student support personnel to support the increase in enrollment. The decrease in instructional and educational support expenses as a percentage of net revenues was due to our ability to better leverage our

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instructional and educational support expenses to support an increased revenue base.

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Selling and promotional expenses increased by \$0.1 million, or 0.8%, to \$14.4 million for the year ended March 31, 2002 from \$14.3 million for the year ended March 31, 2001. As a percentage of net revenues, selling and promotional expenses decreased to 15.7% for the year ended March 31, 2002 as compared to 18.0% for the year ended March 31, 2001. The decrease in selling and promotional expenses as a percentage of net revenues was due to our ability to maintain such expenses relatively unchanged while supporting a growth in revenues.

General and administrative expenses increased by \$1.9 million, or 15.8%, to \$14.0 million for the year ended March 31, 2002 from \$12.1 million for the year ended March 31, 2001. As a percentage of net revenues, general and administrative expenses remained consistent at 15.2% for the years ended March 31, 2002 and 2001. The increase in general and administrative expenses was primarily due to an increase in administrative payroll expenses and related benefits and an increase in bad debt expense. As a percentage of net revenues, bad debt expense increased to 5.1% for the year ended March 31, 2002 from 5.0% for the year ended March 31, 2001. The increase in bad debt expense was primarily due to the negative impact of the October 2000 required adoption of the Department of Education's new methodology for calculating the amount of previously disbursed federal student financial aid that we must return to the federal government with respect to students who have since withdrawn from our schools. This new regulation increases the student's obligation to the school from which they have withdrawn and decreases the amount of student federal financial aid received by the school on behalf of the student who withdrew.

We reported income from operations of \$5.1 million and \$0.6 million for the years ended March 31, 2002 and 2001, respectively. This increase in profitability was primarily due to an increase in income from operations of \$6.9 million in the Associate Degree Division which was partially offset by a decrease in income from operations in the University Degree Division of \$2.0 million.

We reported net income of \$2.6 million for the year ended March 31, 2002 and a net loss of \$1.4 million for the year ended March 31, 2001. The increase in net income was primarily due to an increase in profitability in the Associate Degree Division, losses sustained in the prior year relating to the sale of our minority ownership of Huron University, which resulted in a loss after taxes of \$0.7 million, and the implementation of SEC Staff Accounting Bulletin No. 101 effective April 1, 2000, which resulted in a one-time charge after taxes of \$0.6 million.

### Year Ended March 31, 2001 Compared to Year Ended March 31, 2000

Net revenues increased by \$2.0 million, or 2.6%, to \$79.6 million for the year ended March 31, 2001 from \$77.6 million for the year ended March 31, 2000. Excluding Huron University, which was sold in August 1999, net revenues increased by \$3.5 million, or 4.5%, to \$79.6 million for the year ended March 31, 2001 from \$76.2 million for the year ended March 31, 2000. This increase was primarily due to a 2.3% increase in average student enrollment and an increase in tuition rates.

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Excluding Huron University, the University Degree Division experienced a 7.2% increase in average student enrollment. Average student enrollment in the Associate Degree Division remained relatively unchanged. The increase in student enrollment in the University Degree Division was primarily due to increased enrollment at Colorado Tech's Sioux Falls campus and in Colorado Tech's information technology programs.

Instructional and educational support expenses increased by \$1.1 million, or 2.1%, to \$52.7 million for the year ended March 31, 2001 from \$51.6 million for the year ended March 31, 2000. As a percentage of net revenues, instructional and educational support expenses decreased to 66.1% for the year ended March 31, 2001 as compared to 66.4% for the year ended March 31, 2000. Excluding Huron University, instructional and educational support expenses increased by \$3.3 million, or 6.6%, to \$52.7 million for the year ended March 31, 2001 from \$49.4 million for the year ended March 31, 2000. Excluding Huron University, as a percentage of net revenues, instructional and educational support expenses increased to 66.1% for the year ended March 31, 2001 as compared to 64.8% for the year ended March 31, 2000. This increase in instructional and educational support expenses was primarily due to an increase of \$2.2 million in the University Degree Division and \$1.0 million in the Associate Degree Division. The increase in instructional and educational support expenses in the University Degree Division was primarily due to increases in payroll and related benefits for faculty and student support personnel to support the increase in enrollments and an increase in expenses related to the start up of Colorado Tech's online program. The increase in instructional and educational support expenses in the Associate Degree Division was primarily due to an increase in payroll and related benefits for faculty, academic administrators and student support personnel at UDS to support an increase in enrollment.

Selling and promotional expenses increased by \$2.0 million, or 16.2%, to \$14.3 million for the year ended March 31, 2001 from \$12.3 million for the year ended March 31, 2000. As a percentage of net revenues, selling and promotional expenses increased to 18.0% for the year ended March 31, 2001 as compared to 15.9% for the year ended March 31, 2000. Excluding Huron University, selling and promotional expenses increased by \$2.3 million, or 18.9%, to \$14.3 million for the year ended March 31, 2001 from \$12.0 million for the year ended March 31, 2000. Excluding Huron University, as a percentage of net revenues, selling and promotional expenses increased to 18.0% for the year ended March 31, 2001 as compared to 15.8% for the year ended March 31, 2000. This increase in selling and promotional expenses was primarily due to an increase in advertising expenses in the Associate Degree Division resulting from our marketing efforts directed at increasing enrollment.

General and administrative expenses decreased by \$0.1 million, or 1.1%, to \$12.1 million for the year ended March 31, 2001 from \$12.2 million for the year ended March 31, 2000. As a percentage of net revenues, general and administrative expenses decreased to 15.2% for the year ended March 31, 2001 as compared to 15.7% for the year ended March 31, 2000. Excluding Huron University, general and administrative expenses decreased by \$0.1 million, or 0.9%, to \$12.1 million for the year ended March 31, 2001 from \$12.2 million for the year ended March 31, 2000. Excluding Huron University, as a percentage of net revenues, general and administrative expenses decreased to 15.2% for the year ended March 31, 2001 as compared to 16.0% for the year ended March 31, 2000. The decrease in general and administrative expenses was primarily due to a reduction in administrative payroll expenses and consulting fees in the University Degree Division. The decrease in these expenses was partially offset by an increase in bad debt expense. As a percentage of net revenues, bad debt expense increased to 5.0% for the year ended March 31, 2001 from 4.4% for the year ended March 31, 2000. Bad debt expense was negatively impacted by the October 2000 required adoption of the Department of Education's new methodology for calculating the

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amount of previously disbursed federal student financial aid that we must return to the federal government with respect to students who have since withdrawn from our schools. This new regulation results in an increase in the student's obligation to the school from which they have withdrawn that will not be paid by federal student financial aid funds.

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We reported income from operations of \$0.6 million for the year ended March 31, 2001 as compared to a loss from operations of \$26,333 for the year ended March 31, 2000. Excluding Huron University, income from operations decreased by \$0.4 million to \$0.6 million for the year ended March 31, 2001 from \$1.0 million for the year ended March 31, 2000. This decrease in profitability was primarily due to a decrease in income from operations of \$0.5 million in the University Degree Division due to an increase in expenses related to the start up of Colorado Tech's online program.

On April 26, 2001, Huron University was sold to a not-for-profit college by the investor group that acquired it from us. Colorado Tech recorded a one-time non-recurring non-cash charge of approximately \$1.2 million or \$0.05 per diluted share in the fiscal quarter ended March 31, 2001 relating to the sale of its minority ownership of Huron University. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations - Divestiture of Huron University."

We reported net losses of \$1.4 million and \$0.5 million for the years ended March 31, 2001 and 2000, respectively. The increase in net loss was primarily due to the loss of \$0.7 million, after taxes realized in fiscal 2001 in connection with the sale of our minority ownership of Huron University and the implementation of SEC Staff Accounting Bulletin No. 101 effective April 1, 2000, which resulted in a one-time charge after taxes of \$0.6 million. These losses were partially offset by operating losses of \$1.0 million sustained at Huron University in fiscal 2000 prior to the divestiture of this campus in August 1999.

### Divestiture of Huron University

In 1999, we sold the Huron, South Dakota, campus of Huron University to a group of investors, including members of the campus management team. In connection with the transaction, we contributed the operating assets of the school, certain of its liabilities and \$550,000 in cash to the purchaser and agreed to guarantee a portion of the assumed liabilities. We also retained a minority interest in the school. We extended a loan of \$500,000 to the campus President to assist him in funding the transaction.

The terms of the transaction were established through an arm's length negotiation, and we recorded no gain or loss. We recorded our minority investment in the school at a cost of approximately \$1.2 million, which then approximated fair value. We recorded the investment under the cost method due to our inability to exercise significant influence over the operating and financial policies of the purchaser.

On April 26, 2001, the investor group sold the school to a not-for-profit college. This transaction released us from any further obligations associated with the school, including our guarantee. We did not receive any proceeds from this transaction, and recorded a one-time non-recurring non-cash charge of approximately \$1.2 million in the fiscal quarter ended March 31, 2001 relating to our minority ownership of the school.

Our loan of \$500,000 to the former campus President remained outstanding after the sale. The loan is due in August 2005 with monthly interest payments at

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the prime rate which commenced in October 1999. The loan is secured by 80,000 shares of our common stock owned by the former campus President. The not-for-profit college that purchased the school has also agreed to guarantee this loan. In October 2001, the loan went into default by virtue of the failure of the required monthly interest payments to be made and we accelerated all amounts due under the loan. In May 2002, we received a default judgment against the not-for-profit college that guaranteed the loan and are commencing collection efforts to enforce the judgment. We believe the collateral securing the loan is adequate and, therefore, have elected not to take action against the principal obligor of the loan at this time.

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### Seasonality

We experience seasonality in our quarterly results of operations as a result of changes in the level of student enrollment. New enrollment in our schools tends to be higher in the third and fourth fiscal quarters because these quarters cover periods traditionally associated with the beginning of school semesters. Costs are generally not significantly affected by the seasonal factors on a quarterly basis. Accordingly, quarterly variations in net revenues will result in fluctuations in income from operations on a quarterly basis.

### Liquidity and Capital Resources

Cash and cash equivalents at March 31, 2002, 2001 and 2000 were \$14.0 million, \$5.9 million and \$6.1 million, respectively. Our working capital totaled \$9.9 million at March 31, 2002, \$9.3 million at March 31, 2001 and \$8.8 million at March 31, 2000.

Net cash of \$13.3 million was provided by operating activities in fiscal 2002, an increase of \$10.8 million from fiscal 2001 and \$6.7 million from fiscal 2000. The increase in cash provided by operating activities of \$10.8 million in fiscal 2002 from fiscal 2001 was primarily due to an increase in net profits of \$4.0 million, a net increase in accounts payable and accrued expenses of \$4.3 million and a decrease in deferred income taxes of \$2.4 million. The increase in cash provided by operating activities of \$6.7 million in fiscal 2002 from fiscal 2000 was primarily due to an increase in net profits of \$3.1 million, a decrease in accounts receivable of \$1.1 million and a decrease in deferred income taxes of \$1.7 million.

Net cash of \$1.4 million was used for investing activities in fiscal 2002, a decrease of \$0.6 million from fiscal 2001 and \$1.0 million from fiscal 2000. The decrease in fiscal 2002 from 2001 was primarily due to a decrease in cash used for capital expenditures. The decrease in fiscal 2002 from fiscal 2000 was primarily due to our investment of \$1.2 million in Huron University in fiscal 2000.

We estimate that the capital expenditures expected to be incurred during fiscal 2003 will approximate \$3.4 million. These anticipated capital expenditures primarily relate to the costs associated with the acquisition and upgrade of equipment for the schools and the relocation and upgrade of campus facilities. Funds required to finance such capital expenditures are expected to be obtained from funds generated from operations.

Net cash of \$3.8 million was used in financing activities in fiscal 2002, an increase in cash used of \$3.1 million from fiscal 2001 and \$1.3 million from fiscal 2000. The increase in cash used in financing activities in fiscal 2002 from fiscal 2001 and fiscal 2000 was due to an increase in net payments on long-term debt and capital lease obligations.

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In March 2001, our \$8.5 million credit facility was restructured into a \$2.0 million line of credit and a \$6.5 million capital expenditure term note. In November 2001, we extended the expiration date on the \$2.0 million line of credit to October 31, 2002. We intend to further extend the expiration date on our line of credit prior to October 31, 2002 or, in the alternative, to seek a replacement credit facility. At March 31, 2002, we had no outstanding balance under this facility and letters of credit outstanding of \$0.5 million which reduced the amount available for borrowing. The \$6.5 million term note is payable in seven monthly installments of interest only commencing on April 21, 2001 and thereafter in 52 monthly installments of principal and interest with a balloon payment due in April 2006. The amounts borrowed under this facility were used for capital expenditures in prior years.

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Our primary source of operating liquidity is the cash received from payments of tuition and fees. Most students attending our schools receive some form of financial aid under Title IV Programs, and a majority of our revenue is derived from Title IV Programs. UDS, Sanford-Brown and Colorado Tech receive approximately 75%, 77% and 29% of their funding, respectively, from the Title IV Programs. Disbursements under each program are subject to disallowance and repayment by the schools.

We believe that given our working capital, our cash flow from operations and our line of credit, we will have adequate resources to meet our anticipated operating requirements for the foreseeable future.

Numerous risks and uncertainties could affect our short-term and long-term liquidity. See "Forward-Looking Statements; Business Risks" for discussion of material factors that could affect our liquidity.

### Contractual Obligations and Other Commercial Commitments

The following summarizes our contractual obligations at March 31, 2002, and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

|                           | Payments Due by Period |                  |           |           |                  |
|---------------------------|------------------------|------------------|-----------|-----------|------------------|
|                           | Total                  | Within<br>1 Year | 2-3 Years | 4-5 Years | After<br>5 Years |
| Note Payable              | \$ 5,958               | \$1,300          | \$ 2,600  | \$ 2,058  | \$ -             |
| Capital Lease Obligations | 4,597                  | 1,782            | 2,227     | 588       | -                |
| Operating Leases          | 30,995                 | 5,802            | 9,963     | 7,607     | 7,623            |
|                           | \$41,550               | \$8,884          | \$14,790  | \$10,253  | \$ 7,623         |
|                           | =====                  | =====            | =====     | =====     | =====            |

We have a contractual commitment related to a \$2.0 million line of credit which expires on October 31, 2002. We intend to further extend the expiration date on our line of credit prior to October 31, 2002 or, in the alternative, to seek a replacement line of credit. At March 31, 2002, we had no outstanding balance under this facility and letters of credit outstanding of \$0.5 million, which reduced the amount available for borrowing.

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### Transactions with Former Management

We purchase certain textbooks and materials for resale to our students from an entity that is 40% owned by Randy S. Proto, our former Chief Operating Officer and President. In the fiscal years ended March 31, 2002, 2001 and 2000, we purchased approximately \$147,900, \$97,500 and \$148,800, respectively, in textbooks and materials from that entity.

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### Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates, including those related to allowance for doubtful accounts, intangible assets, accrued liabilities, income and other tax accruals, revenue recognition and contingencies and litigation. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Critical accounting policies are defined as those that are reflective of significant judgments by management and uncertainties, and that could potentially result in materially different results under different assumptions and conditions. Although historically, actual results have not significantly deviated from those determined using management's estimates, as discussed below, our financial position or results of operations could be materially different if we were to report under different conditions or when using different assumptions in the application of such policies. We believe the following accounting policies are the most critical to us, in that they are the primary areas where financial information is subject to the use of management's estimates, assumptions and the application of management's judgment in the preparation of our consolidated financial statements. The critical accounting policies discussed herein are not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States of America, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result. Other accounting policies also have a significant effect on our financial statements, and some of these policies also require the use of estimates and assumptions. Our significant accounting policies are discussed in Note 1 to the Consolidated Financial Statements included in Item 8 of this Form 10-K.

### Revenues, Accounts Receivable and Deferred Tuition Revenue

Revenues consist primarily of tuition and fees paid by students. Approximately 65% of our net revenues collected during the fiscal year ended March 31, 2002 were received from students who received funds from Title IV Programs to pay for their tuition.

We charge our students for the full contract amount at the beginning of the course, the academic year, or the academic term, as applicable, resulting in the recording of an account receivable and a corresponding deferred tuition revenue

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liability. The deferred tuition revenue liability is reduced and recognized into income over the term of the relevant period being attended by the student. If a student withdraws from a course or program, the unearned portion of the program that the student has paid for is refunded generally on a pro rata basis.

We continuously monitor collections and payments from our students and maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our students to make required payments. We determine the adequacy of this allowance by regularly reviewing the accounts receivable aging and applying various expected loss percentages to certain student account receivable categories based on historical bad debt experience. We charge-off accounts receivable balances deemed to be uncollectible usually after they have been sent to a collection agency and returned uncollected. While such losses have historically been within our expectations, there can be no assurance that we will continue to experience the same level of losses that we have in the past. Furthermore, because a significant percentage of our revenue is derived from the Title IV Programs, any legislative or regulatory action that significantly reduces Title IV Program funding or the ability of our schools or students to participate in the Title IV Programs could have a material adverse effect on the collectability of our accounts receivable and our future operating results, including a reduction in future revenues and additional allowances for doubtful accounts.

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### Goodwill

We have made acquisitions in the past that have resulted in the recognition of goodwill. Prior to April 1, 2001 we amortized the goodwill associated with these acquisitions using the straight-line method, principally over a forty-year period and evaluated the realizability of the goodwill periodically to determine if the carrying amount was recoverable from operating earnings on an undiscounted basis over their estimated useful lives.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Under the new rules, goodwill (and identifiable intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests or more frequently if impairment indicators arise. Other intangible assets will continue to be amortized over their estimated useful lives.

Effective April 1, 2001, we elected to early adopt SFAS 142. During September 2001, we completed our transitional impairment test of goodwill in accordance with SFAS 142. As a result of this test, it was determined that there was no impairment of goodwill.

In assessing the recoverability of our goodwill, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective asset. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for this asset not previously recorded which would adversely impact our operating results for the period in which we made the determination. There are many assumptions and estimates underlying the determination of an impairment loss. Another estimate using different, but still reasonable, assumptions could produce a significantly different result. Therefore, impairment losses could be recorded in the future.

### Income Taxes

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We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109") which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

As part of the process of preparing our consolidated financial statements we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. We also recognize as deferred tax assets the future tax benefits from net operating and capital loss carryforwards. We evaluate the realizability of these deferred tax assets by assessing their valuation allowances and by adjusting the amount of such allowances, if necessary. Among the factors used to assess the likelihood of realization are our projections of future taxable income streams, the expected timing of the reversals of existing temporary differences, and the impact of tax planning strategies that could be implemented to avoid the potential loss of future tax benefits. However, changes in tax codes, statutory tax rates or future taxable income levels could materially impact our valuation of tax accruals and assets and could cause our provision for income taxes to vary significantly from period to period.

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At March 31, 2002, we had deferred tax assets in excess of deferred tax liabilities of approximately \$2.4 million. During the year, we determined that it is more likely than not that \$2.3 million of those assets will be realized (although realization is not assured), resulting in a valuation allowance of \$100,000 at March 31, 2002.

### New Accounting Pronouncements

On December 3, 1999, the Securities Exchange Commission released Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," to provide guidance on the recognition, presentation, and disclosure of revenue in financial statements. SAB 101 outlines basic criteria that must be met before we may recognize revenue, including persuasive evidence of the existence of an arrangement, the delivery of products or services, a fixed and determinable sales price, and reasonable assurance of collection. SAB 101 became effective beginning the first fiscal quarter of the first fiscal year beginning after December 15, 1999. Prior to the release of SAB 101, our revenue recognition policy was in compliance with accounting principles generally accepted in the United States of America. Effective April 1, 2000, we implemented SAB 101 and changed the method by which we recognize revenue for laboratory and registration fees charged to a student. In fiscal 2001, we began recognizing revenue for these fees ratably over the life of an education program. Previously, we recognized laboratory and registration fees as revenue at the beginning of our academic term or year, as applicable. We recorded the cumulative effect of the change in accounting of approximately \$564,000, net of taxes, in the first quarter of fiscal 2001.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets" ("SFAS 141 and 142"), effective for fiscal years beginning after December 15, 2001. SFAS 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method and establishes specific criteria for the recognition of

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acquired intangible assets apart from goodwill. Under SFAS 142, goodwill is no longer subject to amortization over its useful life. Rather, goodwill will be subject to, at least, an annual assessment for impairment by applying a fair-value-based test. Other intangible assets will continue to be amortized over their useful lives. Whitman elected to adopt the provisions of SFAS 141 and 142 effective April 1, 2001. Application of the nonamortization provision of SFAS 142 resulted in an increase in net income of \$162,000, net of taxes, for the year ended March 31, 2002. During September 2001, the Company completed its transitional impairment test of goodwill in accordance with SFAS 142. As a result of this test, it was determined that there was no impairment of goodwill.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions. SFAS 144 supercedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets to Be Disposed Of" ("SFAS 121") and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual, and Infrequently Occurring Events and Transactions" ("APB 30") for the disposal of a segment of a business. However, SFAS 144 retains the fundamental provisions of SFAS 121 for recognition and measurement of the impairment of long-lived assets to be held and used and the measurement of long-lived assets to be disposed of by sale. SFAS 144 also retains the requirement under APB 30 to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. The provisions of SFAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. We do not expect the adoption of SFAS 144 to have a significant impact on our financial position or results of operations.

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In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"). SFAS 145 updates, clarifies and simplifies existing accounting pronouncements. While the technical corrections to existing pronouncements are not substantive in nature, in some instances, they may change accounting practice. The provisions of this standard related to SFAS No. 13 are effective for transactions occurring after May 15, 2002. All other provisions of this standard must be applied for financial statements issued on or after May 15, 2002, with early application encouraged. The adoption of SFAS 145 did not have a material effect on our results of operations or financial position.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risk associated with changes in interest rates. We are subject to interest rate risk related to our variable-rate line of credit and capital expenditure term note as described in Note 7 of the Notes to Consolidated Financial Statements.

At March 31, 2002, our variable rate long-term debt had a carrying value of \$6.0 million. The fair value of the debt approximates the carrying value because the variable rates approximate market rates. A 10% increase in the period end interest rate would not have a material adverse affect on our results of operations and financial condition.

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### Item 8. Financial Statements and Supplementary Data.

The financial statements and supplementary data, together with the report of independent Certified Public Accountants, required by Regulation S-X are included in this Form 10-K commencing on Page F-1.

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not Applicable.

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## PART III

### Item 10. Directors and Executive Officers of the Registrant.

The information concerning directors required by Item 10 is incorporated by reference to our Proxy Statement for our 2002 Annual Meeting of Shareholders scheduled for August 2002. The information concerning executive officers required by Item 10 is contained in the discussion entitled "Executive Officers of the Registrant" in Part I hereof.

### Item 11. Executive Compensation.

The information required by Item 11 is incorporated by reference to our Proxy Statement for our 2002 Annual Meeting of Shareholders scheduled for August 2002.

### Item 12. Security Ownership of Certain Beneficial Owners And Management.

The information required by Item 12 is incorporated by reference to our Proxy Statement for our 2002 Annual Meeting of Shareholders scheduled for August 2002.

### Item 13. Certain Relationships and Related Transactions.

The information required by Item 13 is incorporated by reference to our Proxy Statement for our 2002 Annual Meeting of Shareholders scheduled for August 2002.

## PART IV

### Item 14. Exhibits, Financial Statements, Schedules and Reports on Form 8-K.

#### (a) (1) Financial Statements

The following consolidated financial statements are filed as a part of this report:

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Report of Independent Certified Public Accountants

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Changes in Stockholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

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All of the financial statement schedules have been omitted because of the absence of the conditions under which they are required or because the required information is included in the consolidated financial statements or the notes thereto.

### (a) (3) Exhibits

| Exhibit<br>Number | Description  | Method of Filing   |
|-------------------|--|--|
| 3.1               | Articles of Incorporation  | Incorporated by reference to our Form 10-Q for the quarter ended September 30, 1997.                               |
| 3.2               | By-Laws, as amended  | Incorporated by reference to our Report on Form 10-K for the year ended March 31, 1999.                            |
| 10.1              | Registration Rights Agreement dated as of April 6, 1992  | Incorporated by reference to our Report on Form 8-K dated April 6, 1992.   |
| 10.2              | Amended and Restated 1986 Directors and Consultants Stock Option Plan  | Incorporated by reference to our Registration Statement on Form S-8 filed September 9, 1992.                       |
| 10.3              | 1992 Incentive Stock Option Plan, as amended   | Incorporated by reference to our Proxy Statement for the Annual Meeting of Shareholders held on November 19, 1992. |
| 10.4              | Whitman Education Group, Inc. 1996 Stock Option Plan, as amended   | Incorporated by reference to our Form 10-Q for the quarter ended June 30, 1997.                                    |
| 10.5              | Form of Security Agreement, dated May 20, 1999, by each of Colorado Technical University, Inc., MDJB, Inc., Sanford-Brown College, Inc. and Ultrasound | Incorporated by reference to our Report on Form 10-K for the year ended March 31, 1999.                            |

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Technical Services, Inc.  
in favor of Merrill Lynch  
Business Financial  
Services, Inc.

- 10.6 Form of Unconditional Guaranty, dated May 20, 1999 by each of Colorado Technical University, Inc., MDJB, Inc., Sanford-Brown College, Inc. and Ultrasound Technical Services, Inc. in favor of Merrill Lynch Business Financial Services, Inc. Incorporated by reference to our Report on Form 10-K for the year ended March 31, 1999.

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- 10.7 WCMA Loan and Security Agreement dated May 20, 1999, by and between Merrill Lynch Business Financial Services, Inc. and Whitman Education Group, Inc. Incorporated by reference to our Report on Form 10-K for the year ended March 31, 1999.
- 10.8 Term Loan and Security Agreement dated March 21, 2001, by and between Merrill Lynch Business Financial Services, Inc. and Whitman Education Group, Inc. Incorporated by reference to our Report on Form 10-K for the year ended March 31, 2001.
- 10.9 Collateral Installment Note dated March 21, 2001, by and between Merrill Lynch Business Financial Services, Inc. and Whitman Education Group, Inc. Incorporated by reference to our Report on Form 10-K for the year ended March 31, 2001.
- 10.10 Form of Unconditional Guaranty, dated March 21, 2001 by each of Colorado Technical University, Inc., CTU Corporation (f/k/a MDJB, Inc.), Sanford-Brown College, Inc. and Ultrasound Technical Services, Inc. in favor of Merrill Lynch Business Financial Services, Inc. Incorporated by reference to our Report on Form 10-K for the year ended March 31, 2001.
- 10.11 Form of Security Agreement dated March 21, 2001 by each of Colorado Technical University, Incorporated by reference to our Report on Form 10-K for the year ended March 31, 2001.

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Inc., CTU Corporation  
(f/k/a MDJB, Inc.),  
Sanford-Brown College,  
Inc. and Ultrasound  
Technical Services,  
Inc. in favor of Merrill  
Lynch Business Financial  
Services, Inc.

|       |  |   |
|-------|--|---|
| 10.12 | Richard C. Pfenniger<br>Stock Option Agreement | Filed herewith.   |
| 21    | Subsidiaries                                   | Incorporated by reference to our<br>Report on Form 10-K for the year<br>ended March 31, 1996. |
| 23.1  | Consent of Ernst & Young<br>LLP                | Filed herewith.   |

Certain exhibits and schedules to this document have not been filed. The Registrant agrees to furnish a copy of any omitted schedule or exhibit to the Securities and Exchange Commission upon request.

(b) We filed no reports on Form 8-K during the quarter ended March 31, 2002.

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### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

WHITMAN EDUCATION GROUP, INC.  
By: /s/ FERNANDO L. FERNANDEZ  
Fernando L. Fernandez  
Vice President - Finance, Chief Financial Officer,  
Secretary and Treasurer

Dated: June 12, 2002

Pursuant to the requirements of the Securities Act of 1934, this Report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

| Signatures  | Title   | Date          |
|---|---|---------------|
| /s/ PHILLIP FROST, M.D.<br>-----<br>Phillip Frost, M.D.             | Chairman of the Board   | June 12, 2002 |
| /s/ RICHARD C. PFENNIGER, JR.<br>-----<br>Richard C. Pfenniger, Jr. | Vice Chairman of the Board<br>and Chief Executive Officer<br>(Principal Executive Officer)                                | June 12, 2002 |
| /s/ FERNANDO L. FERNANDEZ<br>-----<br>Fernando L. Fernandez         | Vice President, Chief<br>Financial Officer,<br>Secretary and Treasurer<br>(Principal Financial and<br>Accounting Officer) | June 12, 2002 |

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|   |                            |               |
|---|----------------------------|---------------|
| /s/ JACK R. BORSTING, Ph.D.<br>-----<br>Jack R. Borsting, Ph.D.   | Vice Chairman of the Board | June 12, 2002 |
| /s/ PETER S. KNIGHT<br>-----<br>Peter S. Knight                   | Director                   | June 12, 2002 |
| /s/ LOIS F. LIPSETT, Ph.D.<br>-----<br>Lois F. Lipsett, Ph.D.     | Director                   | June 12, 2002 |
| /s/ RICHARD M. KRASNO, Ph.D.<br>-----<br>Richard M. Krasno, Ph.D. | Director                   | June 12, 2002 |
| /s/ PERCY A. PIERRE, Ph.D.<br>-----<br>Percy A. Pierre, Ph.D.     | Director                   | June 12, 2002 |
| /s/ NEIL FLANZRAICH<br>-----<br>Neil Flanzraich                   | Director                   | June 12, 2002 |
| /s/ A. MARVIN STRAIT, C.P.A.<br>-----<br>A. Marvin Strait, C.P.A. | Director                   | June 12, 2002 |

Whitman Education Group, Inc. And Subsidiaries  
Consolidated Financial Statements  
March 31, 2002

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Report of Independent Certified Public Accountants

The Board of Directors and Stockholders  
Whitman Education Group, Inc.

We have audited the accompanying consolidated balance sheets of Whitman Education Group, Inc. and subsidiaries as of March 31, 2002 and 2001 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Whitman Education Group, Inc. and subsidiaries at March 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, in 2001 the Company changed its method of revenue recognition for certain fees effective April 1, 2000.

/s/ ERNST & YOUNG LLP

Miami, Florida  
May 29, 2002

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Whitman Education Group, Inc. and Subsidiaries  
Consolidated Balance Sheets

|                                | March 31,     |              |
|--------------------------------|---------------|--------------|
|                                | 2002          | 2001         |
| Assets                         |               |              |
| Current assets:                |               |              |
| Cash and cash equivalents..... | \$ 14,010,878 | \$ 5,892,779 |

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|   |               |               |
|---|---------------|---------------|
| Accounts receivable, net.....   | 23,425,589    | 26,134,128    |
| Inventories.....  | 1,633,917     | 1,516,439     |
| Deferred tax assets, net.....   | 3,376,197     | 4,571,905     |
| Other current assets.....   | 2,273,607     | 1,551,714     |
|   | -----         | -----         |
| Total current assets.....   | 44,720,188    | 39,666,965    |
| Property and equipment, net.....  | 10,804,417    | 11,727,583    |
| Deposits and other assets.....  | 2,296,002     | 2,183,324     |
| Goodwill, net.....  | 9,288,622     | 9,288,622     |
|   | -----         | -----         |
| Total assets.....   | \$ 67,109,229 | \$ 62,866,494 |
|   | =====         | =====         |
| Liabilities and Stockholders' Equity  |               |               |
| Current liabilities:  |               |               |
| Accounts payable.....   | \$ 1,716,674  | \$ 2,356,996  |
| Accrued expenses.....   | 6,749,811     | 3,106,146     |
| Current portion of capitalized<br>lease obligations.....  | 1,781,501     | 1,859,195     |
| Current portion of capital<br>expenditure note payable.....   | 1,300,000     | 541,667       |
| Deferred tuition revenue.....   | 23,269,177    | 22,500,137    |
|   | -----         | -----         |
| Total current liabilities..   | 34,817,163    | 30,364,141    |
| Capitalized lease obligations.....  | 2,815,136     | 3,379,826     |
| Capital expenditure note payable....  | 4,658,333     | 5,958,333     |
| Line of credit.....   | -             | 1,789,897     |
| Deferred tax liability.....   | 1,091,960     | 829,867       |
| Commitments and contingencies   |               |               |
| Stockholders' equity:   |               |               |
| Common stock, no par value;<br>authorized 100,000,000 shares;<br>issued 14,262,648 shares in 2002<br>and 14,077,266 shares in 2001;<br>outstanding 13,827,854 shares<br>in 2002 and 13,642,472 shares in<br>2001..... | 23,198,153    | 22,748,613    |
| Additional paid-in capital.....   | 805,309       | 674,173       |
| Accumulated deficit.....  | (276,825)     | (2,878,356)   |
|   | -----         | -----         |
| Total stockholders' equity..  | 23,726,637    | 20,544,430    |
|   | -----         | -----         |
| Total liabilities and<br>stockholders' equity.....  | \$ 67,109,229 | \$62,866,494  |
|   | =====         | =====         |

See accompanying notes to financial statements.

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Whitman Education Group, Inc. and Subsidiaries  
Consolidated Statements of Operations

Year Ended March 31,

|       |       |       |
|-------|-------|-------|
| ----- | ----- | ----- |
| 2002  | 2001  | 2000  |
| ----- | ----- | ----- |

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|  |               |                |               |
|--|---------------|----------------|---------------|
| Net revenues.....  | \$ 91,926,806 | \$ 79,629,315  | \$ 77,611,312 |
| Costs and expenses:  |               |                |               |
| Instructional and educational support.....   | 58,470,054    | 52,670,430     | 51,567,309    |
| Selling and promotional.....   | 14,425,245    | 14,312,141     | 12,314,109    |
| General and administrative.....  | 13,971,977    | 12,070,282     | 12,206,227    |
| Legal settlement.....  | -             | -              | 1,550,000     |
|  | -----         | -----          | -----         |
| Total costs and expenses.....  | 86,867,276    | 79,052,853     | 77,637,645    |
|  | -----         | -----          | -----         |
| Income (loss) from operations..  | 5,059,530     | 576,462        | (26,333)      |
| Other (income) and expenses:   |               |                |               |
| Interest expense.....  | 932,083       | 1,142,886      | 1,128,876     |
| Interest income.....   | (369,280)     | (334,983)      | (320,508)     |
| Loss on Huron investment.....  | -             | 1,164,613      | -             |
|  | -----         | -----          | -----         |
| Income (loss) before income tax provision (benefit) and cumulative effect of change in accounting principle..... | 4,496,727     | (1,396,054)    | (834,701)     |
| Income tax provision (benefit)..   | 1,895,196     | (538,159)      | (332,545)     |
|  | -----         | -----          | -----         |
| Income (loss) before cumulative effect of change in accounting principle.....                                    | 2,601,531     | (857,895)      | (502,156)     |
| Cumulative effect of change in accounting principle, net of tax benefit of \$375,981.....                        | -             | (563,971)      | -             |
|  | -----         | -----          | -----         |
| Net income (loss).....   | \$ 2,601,531  | \$ (1,421,866) | \$ (502,156)  |
|  | =====         | =====          | =====         |
| Basic income (loss) per share:   |               |                |               |
| Income (loss) before cumulative effect of change in accounting principle.....                                    | \$ 0.19       | \$ (0.07)      | \$ (0.04)     |
| Cumulative effect of change in accounting principle, net of tax.....   | -             | (0.04)         | -             |
|  | -----         | -----          | -----         |
| Net income (loss) .....  | \$ 0.19       | \$ (0.11)      | \$ (0.04)     |
|  | =====         | =====          | =====         |
| Diluted income (loss) per share:   |               |                |               |
| Income (loss) before cumulative effect of change in accounting principle.....                                    | \$ 0.18       | \$ (0.07)      | \$ (0.04)     |
| Cumulative effect of change in accounting principle, net of tax.....   | -             | (0.04)         | -             |
|  | -----         | -----          | -----         |
| Net income (loss) .....  | \$ 0.18       | \$ (0.11)      | \$ (0.04)     |
|  | =====         | =====          | =====         |
| Weighted average common shares outstanding:  |               |                |               |
| Basic.....   | 13,696,354    | 13,370,030     | 13,392,696    |

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|              |            |            |            |
|--------------|------------|------------|------------|
| Diluted..... | 14,318,169 | 13,370,030 | 13,392,696 |
|--------------|------------|------------|------------|

See accompanying notes to financial statements.

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Whitman Education Group, Inc. and Subsidiaries  
 Consolidated Statements of Changes in Stockholders' Equity  
 Years Ended March 31, 2002, 2001 and 2000

|   | Common<br>Shares<br>Outstanding | Common<br>Stock | Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Total         |
|---|---------------------------------|-----------------|----------------------------------|------------------------|---------------|
| Balance at<br>March 31,<br>1999   | 13,423,212                      | \$21,907,546    | \$ 671,536                       | \$ (954,334)           | \$ 21,624,748 |
| Repurchase<br>of treasury<br>shares.....                                | (195,100)                       | (370,406)       | -                                | -                      | (370,406)     |
| Shares issued<br>in connection<br>with exercise<br>of options...        | 5,000                           | 19,375          | 2,637                            | -                      | 22,012        |
| Shares issued<br>in connection<br>with stock<br>purchase<br>plan.....   | 31,625                          | 104,530         | -                                | -                      | 104,530       |
| Shares issued<br>in connection<br>with 401(k)<br>employee<br>match..... | 147,718                         | 406,226         | -                                | -                      | 406,226       |
| Comprehensive<br>loss:  |                                 |                 |                                  |                        |               |
| Net loss.....   | -                               | -               | -                                | (502,156)              | (502,156)     |
| Comprehensive<br>loss.....  |                                 |                 |                                  |                        | (502,156)     |
| Balance at<br>March 31,<br>2000   | 13,412,455                      | 22,067,271      | 674,173                          | (1,456,490)            | 21,284,954    |
| Repurchase of<br>treasury<br>shares.....                                | (90,000)                        | (127,935)       | -                                | -                      | (127,935)     |
| Shares issued<br>in connection<br>with exercise<br>of options...        | 150,000                         | 418,875         | -                                | -                      | 418,875       |
| Shares issued<br>in connection<br>with stock<br>purchase<br>plan.....   | 55,865                          | 89,436          | -                                | -                      | 89,436        |
| Shares issued<br>in connection<br>with 401(k)                           |                                 |                 |                                  |                        |               |

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|  |            |              |            |              |               |
|--|------------|--------------|------------|--------------|---------------|
| employee match.....  | 114,152    | 300,966      | -          | -            | 300,966       |
| Comprehensive loss:  |            |              |            |              |               |
| Net loss.....  | -          | -            | -          | (1,421,866)  | (1,421,866)   |
| Comprehensive loss.....                                    |            |              |            |              | (1,421,866)   |
| Balance at March 31, 2001                                  | 13,642,472 | 22,748,613   | 674,173    | (2,878,356)  | 20,544,430    |
| Shares issued in connection with exercise of options...    | 159,350    | 387,956      | 131,136    | -            | 519,092       |
| Shares issued in connection with stock purchase plan ..... | 26,032     | 61,584       | -          | -            | 61,584        |
| Comprehensive income:                                      |            |              |            |              |               |
| Net income...  | -          | -            | -          | 2,601,531    | 2,601,531     |
| Comprehensive income.....                                  | -          | -            | -          | -            | 2,601,531     |
| Balance at March 31, 2002                                  | 13,827,854 | \$23,198,153 | \$ 805,309 | \$ (276,825) | \$ 23,726,637 |

See accompanying notes to financial statements.

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Whitman Education Group, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows

|  | Year Ended March 31, |                |              |
|--|----------------------|----------------|--------------|
|  | 2002                 | 2001           | 2000         |
| Cash flows from operating activities:  |                      |                |              |
| Net income (loss).....   | \$ 2,601,531         | \$ (1,421,866) | \$ (502,156) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                      |                |              |
| Depreciation and amortization.....   | 3,744,494            | 3,872,444      | 4,323,135    |
| Bad debt expense.....  | 4,657,498            | 3,984,551      | 3,427,524    |
| Deferred tax provision (benefit).....  | 1,457,801            | (941,070)      | (238,263)    |
| Loss on Huron investment.....  | -                    | 1,164,613      | -            |
| Changes in operating assets and liabilities:   |                      |                |              |

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|  |               |              |              |
|--|---------------|--------------|--------------|
| Accounts receivable....  | (1,948,959)   | (3,919,876)  | (3,011,711)  |
| Inventories.....   | (117,478)     | (106,990)    | (67,668)     |
| Other current assets...  | (722,552)     | 269,199      | (444,007)    |
| Deposits and other<br>assets.....  | (130,978)     | 21,733       | (495,412)    |
| Accounts payable.....  | (640,322)     | 1,011,258    | (157,546)    |
| Accrued expenses.....  | 3,643,665     | (2,324,771)  | 2,907,971    |
| Income taxes payable...  | -             | -            | (898,664)    |
| Deferred tuition<br>revenue.....   | 769,040       | 910,314      | 2,264,331    |
| Other liabilities.....   | -             | -            | (474,842)    |
|  | -----         | -----        | -----        |
| Net cash provided by<br>operating activities....   | 13,313,740    | 2,519,539    | 6,632,692    |
|  | -----         | -----        | -----        |
| Cash flows from investing<br>activities:   |               |              |              |
| Purchase of property<br>and equipment.....   | (1,404,301)   | (1,964,273)  | (1,236,511)  |
| Investment in Huron<br>University.....   | -             | -            | (1,164,613)  |
|  | -----         | -----        | -----        |
| Net cash used in<br>investing activities....   | (1,404,301)   | (1,964,273)  | (2,401,124)  |
|  | -----         | -----        | -----        |
| Cash flows from financing<br>activities:   |               |              |              |
| Proceeds from line of<br>credit and long-term<br>debt.....                                       | 163,846       | 28,382,490   | 39,000,577   |
| Principal payments on<br>line of credit, long-term<br>debt and capital lease<br>obligations..... | (4,535,862)   | (29,482,091) | (41,198,653) |
| Repurchase of treasury<br>shares.....  | -             | (127,935)    | (370,406)    |
| Proceeds from purchases<br>in stock purchase plan<br>and exercise of options.                    | 580,676       | 508,311      | 126,542      |
|  | -----         | -----        | -----        |
| Net cash used in<br>financing activities....   | (3,791,340)   | (719,225)    | (2,441,940)  |
|  | -----         | -----        | -----        |
| Increase (decrease) in<br>cash and cash<br>equivalents.....                                      | 8,118,099     | (163,959)    | 1,789,628    |
| Cash and cash equivalents<br>at beginning of year....  | 5,892,779     | 6,056,738    | 4,267,110    |
|  | -----         | -----        | -----        |
| Cash and cash equivalents<br>at end of year.....   | \$ 14,010,878 | \$ 5,892,779 | \$ 6,056,738 |
|  | =====         | =====        | =====        |

Continued on the following page.

See accompanying notes to financial statements.

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Whitman Education Group, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows - (Continued)

|  | Year Ended March 31, |              |              |
|--|----------------------|--------------|--------------|
|  | 2002                 | 2001         | 2000         |
| Supplemental disclosures<br>of noncash financing and<br>investment activities: |                      |              |              |
| Equipment acquired under<br>capital leases.....                                | \$ 1,398,068         | \$ 2,054,462 | \$ 1,749,303 |
| Value of stock issued for<br>401(k) employee match...                          | \$ -                 | \$ 300,966   | \$ 406,226   |
| Supplemental disclosures<br>of cash flow information:                          |                      |              |              |
| Interest paid.....   | \$ 932,083           | \$ 1,142,886 | \$ 1,128,876 |
| Income taxes paid.....   | \$ 481,176           | \$ 22,783    | \$ 1,494,433 |

See accompanying notes to financial statements.

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Whitman Education Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Business

The primary business of Whitman Education Group, Inc. and its subsidiaries ("Whitman" or the "Company") is the operation of proprietary schools offering a range of graduate, undergraduate and non-degree certificate or diploma programs primarily in the fields of healthcare, information technology and business. Whitman's operations are conducted through its three wholly-owned subsidiaries: Ultrasound Technical Services, Inc. ("UDS"), Sanford Brown College, Inc. ("SBC") and CTU Corporation, the parent corporation of Colorado Technical University, Inc. ("CTU"). The revenues generated from these subsidiaries primarily consist of tuition and fees paid by students. The majority of students rely on funds received from federal financial aid programs under Title IV of the Higher Education Act of 1965, as amended ("Title IV"), to pay for a substantial portion of their tuition.

As an educational institution, Whitman is subject to licensure from various accrediting and state authorities and other regulatory requirements of the United States Department of Education ("Department of Education").

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### Principles of Consolidation

The consolidated financial statements include the accounts of Whitman Education Group, Inc. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

### Cash and Cash Equivalents

Whitman considers all highly liquid short-term investments purchased with an original maturity of three months or less to be cash equivalents.

### Revenues, Accounts Receivable and Deferred Tuition Revenue

Whitman charges the student for the full contract amount at the beginning of the course, the academic year, or the academic term, as applicable, resulting in the recording of an account receivable and a corresponding deferred tuition revenue liability. The deferred tuition revenue liability is reduced and recognized into income over the term of the relevant period being attended by the student. If a student withdraws from a course or program, the unearned portion of the program that the student has paid for is refunded generally on a pro rata basis.

Accounts receivable balances are reviewed no less than quarterly for the purpose of determining appropriate levels of allowance for doubtful accounts. The Company establishes the allowance for doubtful accounts using an objective model, which applies various expected loss percentages to certain student accounts receivable categories based on historical bad debt experience. The Company charges-off accounts receivable balances deemed to be uncollectible usually after they have been sent to a collection agency and returned uncollected. All charge-offs are recorded as reductions in the allowance for doubtful accounts, with any recoveries of previously written-off accounts receivable recorded as increases to the allowance for doubtful accounts.

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### Whitman Education Group, Inc. and Subsidiaries Notes to Consolidated Financial Statements - (Continued)

#### 1. Summary of Significant Accounting Policies - (Continued)

The Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101") in December 1999. Prior to the release of SAB 101, the Company's revenue recognition policy was in compliance with accounting principles generally accepted in the United States of America. In order to conform with SAB 101, however, Whitman changed the method by which it recognizes revenue for laboratory and registration fees charged to a student. Previously, laboratory and registration fees were recognized as revenue at the beginning of an academic term or year, as applicable. As of April 1, 2000, Whitman began recognizing revenue for these fees ratably over the life of an education program and recorded a cumulative effect of a change in accounting principle of approximately \$564,000, net of taxes of approximately \$376,000. The effect of the change for the year ended March 31, 2001 was to decrease the loss before the cumulative effect of a change in accounting principle by approximately \$43,000. Pro forma net loss and net loss per share amounts for the year ended March 31, 2000, had the new accounting principle been applied retroactively, are \$(483,000) and \$(0.04), respectively.

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For the three months ended June 30, 2000, September 30, 2000 and December 31, 2000, the Company recognized \$614,000, \$223,000 and \$103,000, respectively, in revenue that was included in the cumulative effect adjustment as of April 1, 2000. The effect of recognizing that revenue in the first and second quarter was to decrease the net loss by approximately \$369,000 and \$134,000, respectively, and to increase net income in the third quarter by approximately \$61,000 (all net of taxes).

### Inventory

Inventory consists primarily of books, uniforms and supplies and is valued at the lower of cost or market using the first-in, first-out (FIFO) method.

### Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation. Expenditures for maintenance and repairs which do not add to the value of the related assets or materially extend their original lives are expensed as incurred.

Depreciation of property and equipment is computed principally by the straight-line method over the estimated useful lives of the assets ranging from one to ten years. Leasehold improvements are amortized over the term of the related leases, which approximates the estimated useful lives. Depreciation expense amounted to approximately \$3,726,000, \$3,576,000 and \$3,954,000 for the years ended March 31 2002, 2001, and 2000, respectively.

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## Whitman Education Group, Inc. and Subsidiaries Notes to Consolidated Financial Statements - (Continued)

### 1. Summary of Significant Accounting Policies - (Continued)

#### Goodwill

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations", and No. 142, "Goodwill and Other Intangible Assets" ("SFAS 141 and 142"), effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests, or more frequently if impairment indicators arise. Other identifiable intangible assets will continue to be amortized over their estimated useful lives.

Whitman elected to early adopt the provisions of SFAS 141 and 142 effective April 1, 2001. Prior to the release of SFAS 141 and 142, the Company amortized the goodwill associated with acquisitions using the straight-line method, principally over a forty-year period. Application of the nonamortization provision of SFAS 142 resulted in an increase in net income of \$162,000, net of taxes, for the year ended March 31, 2002. Pro forma net loss and net loss per basic and diluted share amounts, for the years ended March 31, 2001 and 2000, had SFAS 142 been applied retroactively, would have been approximately \$(1,251,000) and \$(.09) and \$(334,000) and \$(.02), respectively.

During September 2001, the Company completed its transitional impairment test of goodwill in accordance with SFAS 142. As a result of this test, it was

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determined that there was no impairment of goodwill. As of March 31, 2002 and 2001, accumulated goodwill amortization was approximately \$1,295,000.

### Impairment of Long-Lived Assets

Whitman accounts for the impairment of long-lived assets under Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets ("SFAS 121)". SFAS 121 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Based on current circumstances, Whitman does not believe that any impairment indicators are present.

### Income (Loss) Per Common Share

Basic income (loss) before cumulative effect of change in accounting principle, cumulative effect of change in accounting principle, net of tax and net income (loss) per common share is computed using the weighted average number of common shares outstanding during the period. Diluted income (loss) before cumulative effect of change in accounting principle, cumulative effect of change in accounting principle, net of tax and net income (loss) per share is computed using the weighted average number of common and common equivalent shares outstanding during the period.

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## Whitman Education Group, Inc. and Subsidiaries Notes to Consolidated Financial Statements - (Continued)

### 1. Summary of Significant Accounting Policies - (Continued)

#### Advertising

Whitman expenses advertising costs as incurred. Advertising expense, which is included in selling and promotional expenses, amounted to approximately \$8,573,000, \$8,274,000, and \$6,862,000 for the years ended March 31, 2002, 2001 and 2000, respectively.

#### Income Taxes

Deferred income tax assets and liabilities are determined based on the differences between the financial statements and income tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

#### Stock-Based Compensation

Whitman has elected, in accordance with the provisions of SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123") to account for its stock plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations. Under APB 25, because the exercise price of Whitman's employee stock options is equal to the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Stock options granted to non-employees have been accounted for in accordance with SFAS 123, and Emerging Issues Task Force Bulletin 96-18,

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"Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services". Accordingly, compensation expense is determined using the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured. For the years ended March 31, 2002, 2001 and 2000, no compensation expense was incurred.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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### Whitman Education Group, Inc. and Subsidiaries Notes to Consolidated Financial Statements - (Continued)

#### 1. Summary of Significant Accounting Policies - (Continued)

##### New Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS 144"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early adoption encouraged. The provisions of SFAS 144 generally are to be applied prospectively. Whitman does not expect the adoption of SFAS 144 to have a material effect on its results of operations or financial position.

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"). SFAS 145 updates, clarifies and simplifies existing accounting pronouncements. While the technical corrections to existing pronouncements are not substantive in nature, in some instances, they may change accounting effective for transactions occurring after May 15, 2002. All other provisions of this standard must be applied for financial statements issued on or after May 15, 2002, with early application encouraged. The adoption of SFAS No. 145 did not have a material effect on Whitman's results of operations or financial position.

##### Segment Reporting

Whitman complies with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 establishes standards

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Whitman Education Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements - (Continued)

### 1. Summary of Significant Accounting Policies - (Continued)

for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas, and major customers.

#### Reclassification

Certain prior year amounts have been reclassified to conform to the fiscal year 2002 presentation. These changes had no effect on previously reported net loss.

### 2. Divestiture of Huron University

In August 1999, CTU completed the divestiture of its Huron University campus ("Huron") in Huron, South Dakota to a newly formed entity ("Newco") capitalized by several investors and members of Huron's existing management. In connection with the transaction, CTU contributed the operating assets of Huron and \$550,000 to Newco, and Newco issued to CTU units of limited liability company membership interests and assumed certain liabilities of Huron. The liabilities assumed by Newco included the principal balance due of \$1.1 million under a loan agreement. The loan was guaranteed by Whitman, which had a first priority security interest in certain assets of Newco, and had a maturity date of July 2005.

Under the terms of the transaction, the units of limited liability company membership interests equaled 19.9% of the total outstanding limited liability company membership interests in Newco. CTU's units included a liquidation preference right and the same voting privileges as all other units sold by Newco. Additionally, Whitman purchased for \$110,000 a warrant to acquire 20 units of limited liability company interests in Newco, which would have represented approximately 4% of the total outstanding limited liability company membership interests in Newco upon exercise. The warrant had a term of five years and had an exercise price of \$10,000 per unit. The investment in Newco was recorded at a cost of approximately \$1.2 million, which then approximated fair value. No gain or loss was recorded on the transaction. The effective date of the transaction for accounting, tax, and financial statement purposes was September 1, 1999. The terms of the transaction were established through an arm's length negotiation.

CTU's remaining investment in Huron was accounted for under the cost method due to CTU's inability to exercise significant influence over the operating and financial policies of Newco. CTU's inability to exercise significant influence over the operating and financial policies of Newco was based on its limited ownership of only 19.9% of the voting interests of Newco and other facts and circumstances related to its investment in Newco. For instance, Whitman had no representation on the board of managers of Newco, no participation in Newco's policymaking processes, no technological dependency and no support of Newco's administrative or accounting services. Additionally, the president of Newco owned 52% of the voting interests of Newco and as the manager of Newco, had the authority to act on its behalf without consent from other members.

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### 2. Divestiture of Huron University - (Continued)

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During the year ended March 31, 2001, Newco had a net loss of approximately \$1,884,000.

The following unaudited pro forma information excludes the results of operations of Huron University for the fiscal year ended March 31, 2000 as if Whitman's sale of Huron University to Newco had occurred at April 1, 1999. This pro forma information does not purport to be indicative of the results that actually would have occurred if the disposition had been effective on the dates indicated.

|   |              |
|---|--------------|
| Net revenues.....                           | \$76,172,000 |
| Net income.....                             | \$ 157,000   |
| Basic and diluted net income per share..... | \$ .01       |

On April 26, 2001, a not-for-profit college acquired the assets and assumed certain liabilities of Newco. This transaction released Whitman from any further obligations associated with Huron, including its guarantee of the \$1.1 million loan assumed by Newco. Because Whitman did not receive any proceeds from this transaction, CTU recorded a one-time non-recurring non-cash charge of approximately \$1,165,000, or \$0.05 per diluted share, in the fiscal quarter ended March 31, 2001 relating to its minority ownership of Newco.

In connection with the 1999 divestiture of Huron, Whitman provided a loan of \$500,000 to the former president of Huron for the purpose of investing such funds in Newco. The loan is due in August 2005 with monthly interest payments at the prime rate which commenced in October 1999. The loan is secured by 80,000 shares of Whitman common stock owned by the former president of Huron. The not-for-profit college that acquired Newco has also agreed to guarantee this loan. In October 2001, the loan went into default by virtue of the failure of the required monthly interest payments to be made and Whitman accelerated all amounts due under the loan. In May 2002, Whitman received a default judgment against the not-for-profit college that guaranteed the loan and commenced collection efforts to enforce the judgment. Whitman believes the collateral of 80,000 shares of Whitman common stock is adequate and has elected not to take action against the former president of Huron at this time.

### 3. Financial Aid Programs

Approximately 65% of Whitman's net revenues collected during the fiscal year ended March 31, 2002 were received from students who participated in government sponsored financial aid programs under Title IV. These programs are subject to program review by the Department of Education. Disbursements under each program are subject to disallowance and repayment by the schools. These programs also require that Whitman and certain of its subsidiaries meet Standards of Financial Responsibility established by the Department of Education. The standards require Whitman and certain of its subsidiaries to maintain certain financial ratios and requirements, all of which have been met at March 31, 2002.

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Whitman Education Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements - (Continued)

### 4. Accounts Receivable

A summary of activity for the allowance for doubtful accounts is as

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follows:

|  | Year Ended March 31, |              |              |
|--|----------------------|--------------|--------------|
|  | 2002                 | 2001         | 2000         |
| Balance at beginning of year.....                            | \$ 6,768,688         | \$ 5,672,824 | \$ 5,593,888 |
| Charged to expense.....                                      | 4,657,498            | 3,984,551    | 3,427,524    |
| Accounts charged-off during the year, net of recoveries..... | (4,595,112)          | (2,888,687)  | (3,348,588)  |
| Balance at end of year.                                      | \$ 6,831,074         | \$ 6,768,688 | \$ 5,672,824 |

5. Property and Equipment

Property and equipment consist of the following:

|   | Estimated Useful Lives (In Years) | March 31,     |               |
|---|-----------------------------------|---------------|---------------|
|   |                                   | 2002          | 2001          |
| Equipment.....                                      | 2-5                               | \$ 18,104,898 | \$ 16,841,757 |
| Leasehold improvements.                             | 1-10                              | 6,293,753     | 5,633,959     |
| Furniture and fixtures.                             | 7-10                              | 4,842,630     | 4,402,911     |
| Other.....  | 5                                 | 3,049,023     | 2,653,827     |
|   |                                   | 32,290,304    | 29,532,454    |
| Less accumulated depreciation and amortization..... |                                   | (21,485,887)  | (17,804,871)  |
|   |                                   | \$ 10,804,417 | \$ 11,727,583 |

6. Income Taxes

The components of the income tax provision (benefit) are as follows:

|   | Year ended March 31, |              |              |
|---|----------------------|--------------|--------------|
|   | 2002                 | 2001         | 2000         |
| Current.....                            | \$ 437,395           | \$ 26,930    | \$ (94,282)  |
| Deferred.....                           | 1,457,801            | (941,070)    | (238,263)    |
| Total income tax provision (benefit)... | \$1,895,196          | \$ (914,140) | \$ (332,545) |

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6. Income Taxes - (Continued)

The differences between the federal statutory income tax rate and the effective income tax rate are summarized below:

|                                    | Year ended March 31, |         |         |
|------------------------------------|----------------------|---------|---------|
|                                    | 2002                 | 2001    | 2000    |
| Statutory tax rate.....            | 34.0%                | (34.0)% | (34.0)% |
| State income taxes, net.....       | 6.4                  | (1.9)   | (5.7)   |
| Permanent differences.....         | (1.3)                | (1.5)   | 6.6     |
| Change in valuation allowance..... | 2.2                  | -       | (5.9)   |
| Other, net.....                    | 0.8                  | (1.7)   | (0.9)   |
| Effective tax rate.....            | 42.1%                | (39.1)% | (39.9)% |

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of Whitman's net deferred income taxes are as follows:

|   | March 31,     |              |
|---|---------------|--------------|
|   | 2002          | 2001         |
| Current deferred tax assets:                                      |               |              |
| Accrued expenses.....   | \$ 366,000    | \$ 498,000   |
| Reserves and allowances.....                                      | 2,274,000     | 2,278,000    |
| Unrealized depreciation in investments.....                       | 96,000        | 404,000      |
| Deferred income.....  | 98,000        | 87,000       |
| Tax credits.....  | 408,000       | 420,000      |
| Net operating loss carryforwards.....                             | 295,000       | 732,000      |
| Capital loss carryforwards.....                                   | 167,000       | 231,000      |
| Total current deferred tax assets before valuation allowance..... | 3,704,000     | 4,650,000    |
| Valuation allowance.....  | (100,000)     | -            |
| Total current deferred tax assets.....                            | 3,604,000     | 4,650,000    |
| Current deferred tax liability:                                   |               |              |
| Prepaid expenses and other.....                                   | (228,000)     | (78,000)     |
| Total current deferred tax liability....                          | (228,000)     | (78,000)     |
| Total current deferred tax assets, net..                          | \$ 3,376,000  | \$4,572,000  |
| Non-current deferred tax liability:                               |               |              |
| Amortization of goodwill.....                                     | \$(1,092,000) | \$ (830,000) |

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### Whitman Education Group, Inc. and Subsidiaries Notes to Consolidated Financial Statements - (Continued)

#### 6. Income Taxes - (Continued)

SFAS 109, "Accounting for Income Taxes", requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all of the evidence, both positive and negative, management has determined that a \$100,000 valuation allowance at March 31, 2002 is necessary to reduce the deferred tax assets to the amount that will more likely than not be realized. The valuation allowance increased by \$100,000 in fiscal 2002, increased by \$0 in fiscal 2001, and decreased by \$50,000 in fiscal 2000. At March 31, 2002, Whitman has no remaining available federal net operating loss carryforwards. At March 31, 2002, Whitman has available various state net operating loss carryforwards approximating \$8,243,000 expiring in the years 2011 through 2022. Whitman has approximately \$444,000 in capital loss carryforwards which begin to expire in 2004. Whitman also has an alternative minimum tax credit of approximately \$408,000 which carries forward indefinitely.

#### 7. Debt

On May 28, 1999, Whitman entered into an \$8.5 million line of credit which is secured by all of the assets of Whitman. The interest rate on the line of credit is variable and is equal to the sum of 2.90% and the 30-day commercial paper rate. The line of credit contains certain covenants, that among other things, require maintenance of minimum levels of tangible net worth and net cash flow. The line of credit also contains a restriction that limits Whitman's ability to acquire other entities at a cost in excess of \$1.5 million.

On March 21, 2001, Whitman restructured the \$8.5 million line of credit into a \$6.5 million capital expenditure term note and a \$2.0 million line of credit. The \$6.5 million capital expenditure term note was established to provide long term capital expenditure financing for Whitman's investments in property, plant and equipment acquired in prior years. The capital expenditure term note is payable in seven monthly installments of interest only commencing on April 21, 2001, and thereafter 52 monthly installments of principal and interest, with a balloon payment due April 2006. The capital expenditure term note is collateralized by property, plant and equipment and all other assets of Whitman. The line of credit is also secured by all of the assets of Whitman. The interest rate of the capital expenditure term note and the line of credit is variable and is equal to the sum of 2.90% and the 30-day commercial paper rate. At March 31, 2002 and 2001, the interest rates were 4.70% and 6.92%, respectively. The capital expenditure term note and the line of credit contain certain covenants, that among other things, require the maintenance of minimum levels of tangible net worth and net cash flow. The capital expenditure term note and line of credit also contain a restriction that limits Whitman's ability to acquire other entities at a cost in excess of \$1.5 million. At March 31, 2002, Whitman was in compliance with the covenants of the term note and the line of credit. At March 31, 2002, the outstanding balance of the line of credit was \$0 and letters of credit of \$0.5 million were outstanding under the facility which reduced the amount available for borrowing. The maturity date of the line of credit is October 31, 2002.

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Whitman Education Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements - (Continued)

7. Debt - (Continued)

Aggregate maturities of long-term debt at March 31, 2002 are as follows:

| Fiscal Year |              |
|-------------|--------------|
| 2003.....   | \$ 1,300,000 |
| 2004.....   | 1,300,000    |
| 2005.....   | 1,300,000    |
| 2006.....   | 1,300,000    |
| 2007.....   | 758,333      |
|             | -----        |
| Total.....  | \$ 5,958,333 |
|             | =====        |

8. Capitalized Lease Obligations

Whitman leases equipment under several lease agreements which are accounted for as capital leases. The assets and liabilities under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the asset. The assets are amortized over the related lease term.

During 2002 and 2001, Whitman entered into leases totaling approximately \$1,398,000 and \$2,054,000, respectively, in connection with the purchase of equipment. The amortization of leased assets of approximately \$1,976,000, \$1,225,000 and \$993,000 for the years ended March 31, 2002, 2001, and 2000, respectively, is included in depreciation and amortization. The following is a summary of assets held under capital leases which are included in property and equipment at March 31:

|                                | 2002          | 2001         |
|--------------------------------|---------------|--------------|
|                                | -----         | -----        |
| Equipment.....                 | \$ 10,311,374 | \$ 9,533,844 |
| Furniture and fixtures.....    | 1,816,294     | 1,417,300    |
| Software.....                  | 464,731       | 456,725      |
|                                | -----         | -----        |
|                                | 12,592,399    | 11,407,869   |
| Less accumulated amortization. | (7,740,480)   | (6,002,726)  |
|                                | -----         | -----        |
|                                | \$ 4,851,919  | \$ 5,405,143 |
|                                | =====         | =====        |

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Whitman Education Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements - (Continued)

8. Capitalized Lease Obligations - (Continued)

Future minimum lease payments under capital leases at March 31, 2002 are as

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follows:

|  |              |
|--|--------------|
| Fiscal Year  |              |
| 2003.....  | \$ 2,140,447 |
| 2004.....  | 1,483,683    |
| 2005.....  | 1,052,477    |
| 2006.....  | 579,565      |
| 2007.....  | 43,352       |
|  | -----        |
| Total minimum lease payments.....                  | 5,299,524    |
| Less amount representing interest<br>(8%-13%)..... | (702,887)    |
| Less amount classified as current.....             | (1,781,501)  |
|  | -----        |
|  | \$ 2,815,136 |
|  | =====        |

9. Employee Benefit Plan

Whitman has a 401(k) retirement savings plan covering all employees that meet certain eligibility requirements. Eligible participating employees may elect to contribute up to a maximum amount of tax deferred contribution allowed by the Internal Revenue Code. Whitman matches a portion of such contributions up to a maximum percentage of the employee's compensation. Whitman's contributions to the plan were approximately \$305,000, \$301,000 and \$329,000 for the years ended March 31, 2002, 2001 and 2000, respectively. In April 2002, Whitman distributed 66,212 shares of common stock to its employees for the fiscal year 2002 matching contribution.

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Whitman Education Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements - (Continued)

10. Stock Option Plans

Whitman has adopted stock option plans under which employees, directors and consultants of Whitman may be issued options covering up to 4,715,250 shares of common stock. Options are granted at the fair market value of the stock at the date of the grant, with vesting ranging up to five years and a maximum term of 7-10 years. A summary of stock option activity related to Whitman's stock option plans is as follows:

|                                | Weighted<br>Average<br>Exercise<br>Price Per Share | Number<br>Of Shares |
|--------------------------------|--|---------------------|
|                                | -----  | -----               |
| Outstanding March 31, 1999.... | \$ 5.24  | 3,518,850           |
| Granted.....                   | 3.68   | 575,500             |
| Exercised.....                 | 3.88   | (5,000)             |
| Cancelled.....                 | 5.01   | (274,139)           |
|                                |  | -----               |
| Outstanding March 31, 2000.... | 4.16   | 3,815,211           |
| Granted.....                   | 2.25   | 708,150             |
| Exercised.....                 | 2.79   | (150,000)           |
| Cancelled.....                 | 6.49   | (411,811)           |
|                                |  | -----               |

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|                                |      |           |
|--------------------------------|------|-----------|
| Outstanding March 31, 2001.... | 3.83 | 3,961,550 |
| Granted.....                   | 3.62 | 659,500   |
| Exercised.....                 | 2.43 | (159,350) |
| Cancelled.....                 | 3.68 | (352,763) |
|                                |      | -----     |
| Outstanding March 31, 2002.... | 3.86 | 4,108,937 |
|                                |      | =====     |

As required by SFAS 123, pro forma information regarding net income (loss) and income (loss) per share has been determined as if Whitman had accounted for its employee stock options under the fair value method of SFAS 123. The fair value for these options was estimated at the date of grant using a Black-Scholes options pricing model with the following weighted-average assumptions for fiscal years 2002, 2001 and 2000, respectively: risk-free rates of 2.9%, 5.7% and 6.1%; no dividend yields for the three years; volatility factors of the expected market price of Whitman's common stock of 0.394, 0.614, and 0.593; and a weighted-average expected life of the option of 7.0 years for the three years. The weighted-average fair value of the stock options granted in fiscal years 2002, 2001 and 2000 was \$1.65, \$1.49 and \$2.38, respectively.

The Black-Scholes options valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because Whitman's employee stock options have characteristics significantly different from traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the

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Whitman Education Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements - (Continued)

10. Stock Option Plans - (Continued)

existing models, in management's opinion, do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. Whitman's fiscal 2002, 2001 and 2000 pro forma information follows:

|                              | 2002         | 2001           | 2000           |
|------------------------------|--------------|----------------|----------------|
|                              | -----        | -----          | -----          |
| Net income (loss).....       | \$ 1,743,460 | \$ (2,777,748) | \$ (2,150,937) |
| Net income (loss) per share: |              |                |                |
| Basic.....                   | \$ .13       | \$ (.21)       | \$ (.16)       |
| Diluted.....                 | \$ .12       | \$ (.21)       | \$ (.16)       |

The exercise price of options outstanding at March 31, 2002 ranged as follows:

| Exercise Plan | Number<br>Of Options | Weighted Average Remaining<br>Contractual Life (Years) |
|---------------|----------------------|--|
|---------------|----------------------|--|

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|                  |           |     |
|------------------|-----------|-----|
| \$1.50 - \$2.25  | 815,650   | 3.4 |
| \$2.26 - \$3.38  | 1,067,625 | 5.0 |
| \$3.39 - \$5.06  | 1,201,750 | 4.0 |
| \$5.07 - \$7.59  | 948,912   | 2.7 |
| \$7.60 - \$11.39 | 75,000    | 1.6 |
|                  | 4,108,937 |     |
|                  | =====     |     |

Stock options totaling 3,339,849, 3,162,645, and 2,774,452 were exercisable at the end of fiscal 2002, 2001 and 2000, respectively. Common stock reserved for issuance under the stock option plans aggregate to 4,715,250 shares at March 31, 2002.

11. Related Party Transactions

Whitman purchases certain textbooks and materials for resale to its students from an entity that is 40% owned by Whitman's former president and Chief Operating Officer. In the fiscal years ended March 31, 2002, 2001 and 2000, Whitman purchased approximately \$147,900, \$97,500, and \$148,800, respectively, in textbooks and materials from that entity.

In February 1996, Whitman moved its headquarters to Miami, Florida. Whitman occupies office space in a building owned by IVAX Corporation. Whitman's Chairman is also Chairman and Chief Executive Officer of IVAX Corporation and another of our directors is also a Vice Chairman and President of IVAX

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Whitman Education Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements - (Continued)

Corporation. Whitman's Vice Chairman and Chief Executive Officer is also a director of IVAX Corporation. Whitman incurred rent expense of approximately \$284,000, \$146,000 and \$146,000 for fiscal years ended March 31, 2002, 2001 and 2000, respectively.

12. Commitments and Contingencies

Whitman leases classroom and office space under operating leases in various buildings where the schools are located. Certain of Whitman's operating leases contain rent escalation clauses. Future minimum annual rental commitments under noncancellable operating leases as of March 31, 2002 are as follows:

| Fiscal Year                       |              |
|-----------------------------------|--------------|
| 2003.....                         | \$ 5,801,936 |
| 2004.....                         | 5,110,992    |
| 2005.....                         | 4,852,227    |
| 2006.....                         | 4,358,533    |
| 2007.....                         | 3,248,761    |
| Thereafter.....                   | 7,622,561    |
|                                   | -----        |
| Total minimum lease payments..... | \$30,995,010 |
|                                   | =====        |

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Rent expense during fiscal 2002, 2001 and 2000 was approximately \$6,080,000, \$6,035,000, and \$5,766,000, respectively.

In fiscal 2002 Whitman entered into financing agreements to acquire capital equipment totaling approximately \$1,398,000. In fiscal 2002, approximately \$1,398,000 of capital equipment was financed under these agreements and are included under capitalized lease obligations. At March 31, 2002, Whitman had \$463,000 of letters of credit outstanding.

On May 4, 2000, Whitman, in conjunction with its insurance carriers, reached an agreement in principle to settle the class action lawsuit, Cullen, et. al. v. Whitman Education Group, Inc., et. al. The settlement agreement covers students who attended Whitman's Ultrasound Diagnostic Schools any time from August 1, 1994 to August 1, 1998 in either the general ultrasound program or the non-invasive cardiovascular technology program. The settlement agreement provided for payment of \$5,970,000 in cash and approximately \$1,346,000 in loan forgiveness of delinquent obligations owed by students to Whitman's Ultrasound Diagnostic schools. The actual cash payment of approximately \$5,970,000 was funded by Whitman contributing \$1,170,000 and Whitman's insurance carriers contributing \$4,800,000. Whitman also contributed \$1,346,000 in debt forgiveness, all of which was fully reserved or previously written-off at March 31, 2000. Whitman also provided for a reserve for potential claims from members of the class action lawsuit who elected not to participate in the settlement. This reserve was estimated based on historical student settlement experience. As a result of the cash settlement payment and estimated reserves, Whitman recorded

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### Whitman Education Group, Inc. and Subsidiaries Notes to Consolidated Financial Statements - (Continued)

#### 12. Commitments and Contingencies - (Continued)

a one-time, after-tax charge to earnings of approximately \$930,000, or \$.07 per share in the fiscal quarter ended March 31, 2000. Although management denied the allegations of the lawsuit, and believed the key allegations to be without merit, Whitman entered into the settlement to resolve litigation in a satisfactory business manner, to avoid disruption of Whitman's business, and to allow Whitman to pursue its mission of providing quality education to its students.

Whitman is a party to routine litigation incidental to its business, including but not limited to, claims involving students or graduates and routine employment matters. While there can be no assurance as to the ultimate outcome of any such litigation, management does not believe that any pending proceeding will result in a settlement or an adverse judgment that will have a material adverse effect on Whitman's financial condition or results of operations.

#### 13. Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, notes payable and accounts payable and accrued expenses approximate fair value because of their short duration to maturity. The carrying amounts of revolving credit facilities and the capital expenditure note payable approximate fair value because the interest rate is tied to a quoted variable index.

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14. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

|  | For the Year Ended March 31, |                |              |
|--|------------------------------|----------------|--------------|
|  | 2002                         | 2001           | 2000         |
| <b>Numerator:</b>  |                              |                |              |
| Income (loss) before cumulative effect of change in accounting principle.....                                | \$ 2,601,531                 | \$ (857,895)   | \$ (502,156) |
| Cumulative effect of change in accounting principle, net of tax.....   | -                            | (563,971)      | -            |
| Net income (loss).....   | \$ 2,601,531                 | \$ (1,421,866) | \$ (502,156) |
| <b>Denominator:</b>  |                              |                |              |
| Denominator for basic earnings per share - weighted average shares.....                                      | 13,696,354                   | 13,370,030     | 13,392,696   |
| Effect of dilutive securities:   |                              |                |              |
| Employee stock options.....  | 621,815                      | -              | -            |
| Dilutive potential common shares.....  | 621,815                      | -              | -            |
| Denominator for diluted earnings per share - adjusted weighted - average shares and assumed conversions..... | 14,318,169                   | 13,370,030     | 13,392,696   |
| Basic income (loss) before cumulative effect of change in accounting principle.....                          | \$ 0.19                      | \$ (0.07)      | \$ (0.04)    |
| Cumulative effect of change in accounting principle, net of tax.....   | -                            | (0.04)         | -            |
| Basic net income (loss) per share.....   | \$ 0.19                      | \$ (0.11)      | \$ (0.04)    |
| Diluted income (loss) before cumulative effect of change in accounting principle.....                        | \$ 0.18                      | \$ (0.07)      | \$ (0.04)    |
| Cumulative effect of change in accounting principle, net of tax.....   | -                            | (0.04)         | -            |
| Diluted net income (loss) per share.....   | \$ 0.18                      | \$ (0.11)      | \$ (0.04)    |

15. Segment and Related Information

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Whitman is organized into two reportable segments, the University Degree Division and the Associate Degree Division, through three wholly-owned subsidiaries. The University Degree Division primarily offers bachelor, master and doctorate degrees through CTU. The Associate Degree Division offers associate degrees and diplomas or certificates through SBC and UDS.

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### 15. Segment and Related Information - (Continued)

Whitman's revenues are not materially dependent on a single customer or small group of customers.

Summarized financial information concerning the Whitman reportable segments is shown in the following table:

|   | For the Year Ended March 31, |                |               |
|---|------------------------------|----------------|---------------|
|   | 2002                         | 2001           | 2000          |
| <b>Net revenues:</b>  |                              |                |               |
| Associate Degree Division.....  | \$71,839,438                 | \$60,084,422   | \$ 58,473,078 |
| University Degree Division.....   | 20,087,368                   | 19,544,893     | 19,138,234    |
|   | -----                        | -----          | -----         |
| Total.....  | \$91,926,806                 | \$79,629,315   | \$ 77,611,312 |
|   | =====                        | =====          | =====         |
| <b>Income (loss) before income tax provision (benefit) and cumulative effect of change in accounting principle:</b> |                              |                |               |
| Associate Degree Division.....  | \$ 6,524,956                 | \$ (446,768)   | \$ (307,690)  |
| University Degree Division.....   | 541,137                      | 1,204,701      | 1,757,834     |
| Other.....  | (2,569,366)                  | (2,153,987)    | (2,284,845)   |
|   | -----                        | -----          | -----         |
| Total.....  | \$ 4,496,727                 | \$ (1,396,054) | \$ (834,701)  |
|   | =====                        | =====          | =====         |
| <b>Capital expenditures:</b>  |                              |                |               |
| Associate Degree Division.....  | \$ 1,711,502                 | \$ 2,819,719   |               |
| University Degree Division....  | 1,087,837                    | 1,191,542      |               |
| Other.....  | 3,030                        | 7,474          |               |
|   | -----                        | -----          |               |
| Total.....  | \$ 2,802,369                 | \$ 4,018,735   |               |
|   | =====                        | =====          |               |
|   | March 31,                    |                |               |
|   | -----                        | -----          |               |
|   | 2002                         | 2001           |               |
|   | -----                        | -----          |               |
| <b>Total assets:</b>  |                              |                |               |
| Associate Degree Division.....  | \$52,696,673                 | \$49,157,580   |               |
| University Degree Division.....   | 10,773,292                   | 11,895,647     |               |
| Other.....  | 3,639,264                    | 1,813,267      |               |
|   | -----                        | -----          |               |
| Total.....  | \$67,109,229                 | \$62,866,494   |               |
|   | =====                        | =====          |               |

16. Quarterly Financial Data (Unaudited)

Summarized unaudited quarterly financial data for the fiscal years ended March 31, 2002 and 2001 are as follows:

|  | 2002          |               |               |              |
|--|---------------|---------------|---------------|--------------|
|  | First         | Second        | Third         | Fourth       |
| Net revenues   | \$ 20,518,116 | \$ 21,384,299 | \$ 24,369,149 | \$25,655,242 |
| Income from operations   | 320,976       | 211,418       | 2,338,916     | 2,188,220    |
| Income before cumulative effect of change in accounting principle                      | 97,027        | 29,627        | 1,328,886     | 1,145,991    |
| Net income   | 97,027        | 29,627        | 1,328,886     | 1,145,991    |
| Net income per share:  |               |               |               |              |
| Basic  | \$ .01        | \$ .00        | \$ .10        | \$ .08       |
| Diluted  | \$ .01        | \$ .00        | \$ .09        | \$ .08       |
|  | 2001          |               |               |              |
|  | First         | Second        | Third         | Fourth       |
| Net revenues   | \$ 18,879,430 | \$ 18,521,239 | \$ 20,878,235 | \$21,350,411 |
| (Loss) income from operations  | (363,718)     | (1,266,026)   | 1,103,990     | 1,102,216    |
| (Loss) income before cumulative effect of change in accounting principle               | (301,766)     | (900,583)     | 518,022       | (173,568)    |
| Net (loss) income  | (865,737)     | (900,583)     | 518,022       | (173,568)    |
| Net (loss) income per share before cumulative effect of change in accounting principle | \$ (0.02)     | \$ (0.07)     | \$ 0.04       | \$ (0.01)    |
| Net (loss) income per share (basic and diluted)  | \$ (0.06)     | \$ (0.07)     | \$ 0.04       | \$ (0.01)    |

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### CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 33-94200 and Form S-8 No. 33-52588) pertaining to the 1986 Amended and Restated Directors and Consultants Stock Option Plan, Registration Statements (Form S-8 No. 33-58068 and Form S-8 No. 33-94230) pertaining to the 1992 Incentive Stock Option Plan, Registration Statements (Form S-8 No. 333-16007, Form S-8 No. 333-67477 and Form S-8 No. 333-67834) pertaining to the 1996 Stock Option Plan, Registration Statement (Form S-8 No. 333-42109) pertaining to the Employee Stock Purchase Plan and Registration Statement (Form S-8 No. 333-67473) pertaining to the Richard C. Pfenniger, Jr. Stock Option Plan of Whitman Education Group, Inc. of our report dated May 29, 2002, with respect to the consolidated financial statements of Whitman Education Group, Inc. included in this Annual Report (Form 10-K) for the year ended March 31, 2002.

/s/ ERNST & YOUNG LLP

Miami, Florida  
June 7, 2002

